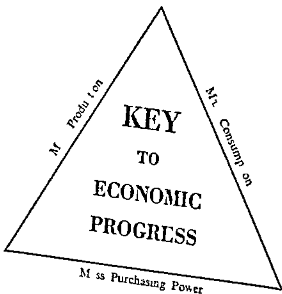
How industrialization can serve the world

A book on economics necessarily undertake to describe all the main features in the lives of tho e whose needs are served by the country in which they live

The relationships of each of thes features to the other must be explained KEY TO ECONOMIC PROGRESS sets forth clearly and simply how mass purchasing power mass production and m s consumption can be combined to brin a risin st ndard of living to the greatest majority

Th author gives the n cessary factors of social and polit cal life their proper weight—so that along with the more technical aspects of productivity monetary and fi cal policies the p erequisi es for Democratic Industrialism are demonstrated.

D G KOUSOULAS



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PREFACE

"The central fact of today's life is the existence in the world of two great philosophies of man and government. They are in a contest for the friendship, loyalty and support of the world's peoples."

With these words President Eisenhower struck the heart of a dilemma mankind faces today. Indeed, one of the basic issues of our time is whether people can attain economic well being without sacrificing their political and personal freedom on the altar of an omnipotent state. This is not an abstract question; the future of humanity may well depend on how people resolve it.

Since the beginning of civilized society, men who were able to wield political or economic power were in a position to lead and command. In our modern world, a totalitarian State fuses both the political and the economic functions into one monolithic structure controlled by a handful of individuals seated at the top of a single politico-economic pyramid. In a modern democracy, on the other hand, power, whether stemming from political or economic activities, is vested in a myriad of separate but interdependent political and economic units. As these units represent practically all segments of society, no privileged

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ing pov rty and a small minority in provocative wealth I must confess that I too shared this misconception until I came to th United States seven years ago under a Ful bright Scholarship and observed capitalism in Am rica.

From the first moment I was perplexed by the image of a capitalist country in which there was neither a majority of paupers nor a minority of all powerful rich For five years I studi d the inviting subject with insatiable curi osity Eventually I became convinced that h re was a capitalist country which had somehow put to practice —the theoretical demands and promises of the most progressive socialist thinkers above all the qu st for fair sharin of the national wealth And I came to th conclu sion that in the United States *the old style cap talism had given way to a new economic system based on different principles*

What I had learned I felt should be brought to th attention of my countrymen in Greece who like myself a few years ago had a rather muddl d and unrealistic conception of what makes America great. I presented my observa tions on the present day American economic system in a series of fifteen articles which were published in six Greek n wspapers and a political review as part of my regular column on the American scene and the world at large entitled Letters from Washington The favorable r action in Greece to these articles has encouraged me to undertake this book, writt n in English so that more people around the world could read it.

* *

The American system of cours is not a utopian pana cea which can remedy all the world s social and economic ills with despatch. There is, in fact, no fixed blueprint by which it has developed Rather th re is a set of flexible economic princ ples developed through trial and error over the years within a framework of democracy Most signifi

group or class is allowed to gain absolute control over the entire social structure

One of the fundamental characteristics of a developed society is its industrial basis In this sense both the United States and the Soviet Union have one thing in common they are industrial states But at this point the similarity ends While the industrial system in the Soviet Union is part of a monolithic politico-economic structure in the United States it operates within a democratic framework. On the basis of these general features of the American democracy one may use the term *democratic industrialism* to identify the set of principles which underlie the American economic system today

* * *

To a world groping for answers the experience of the American people who have an industrial system operating within a democratic framework is of practical significance The phenomenal growth and achievements of the American system of democratic industrialism in terms of individual living standards are enormous in terms of social justice and economic prosperity can be attained in societies where the individual is free

Many people tend to regard the progress of America as if it had occurred in a vacuum ignoring in the process the factors which made progress possible the political and economic system Some people though dedicated to monolithic state systems of economic development find they cannot ignore the facts and arrive at the awkward position of acknowledging the American achievements but rejecting the system and particularly the economic system of capitalism

The term capitalism like so many other words in our ... has acquired too many meanings to be sufficiently descriptive To many it is a notorious word almost au- ... ally associated with a vast majority living in depress-

PART ONE

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I—IS THE AMERICAN ECONOMIC SYSTEM REALLY DIFFERENT?

Few Americans would claim their economic syst m has reached pe f ction Like all products of human expen e ce it has flaws and weaknesses Furthermore it is in a stat of constant development new problems and n w n eds continuously arise

An un ompromising perfectionist will find many faults to criticize But this is neither a construct ve nor a real istic approach Wh t is important is to under tand th dynamics of th American economic system which explain its achievement for the fact is that Americans have achieved the highest standard of living on earth without s crificin personal and political freedom With less than seven percent of the world s land area and population, America produces nearly fifty percent of th world s manu factured goods and well over thirty five percent of the world s goods and services and although their workwe k has been constantly reduced the great majority of Ameri cans today have better food better clothing better hous ing fa ilities bett r education and more varied recre tion than ever b fore

Americ s sou ces of econom c strength

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An uncompromising perfectionist will find many faults to criticize. But this is neither a constructive nor a realistic approach. What is important is to understand the dynamics of the American economic system which explain its achievement, for the fact is that Americans have achieved the highest standard of living on earth without sacrificing personal and political freedom. With less than seven percent of the world's land area and population America produces nearly fifty percent of the world's manufactured goods and well over thirty five percent of the world's goods and services; and although their workweek has been constantly reduced, the great majority of Americans today have better food, better clothing, better housing facilities, better education and more varied recreation than ever before.

America's sources of economic strength

The phenomenal production of the American economy is often taken for granted by both Americans and foreign

ers Explanations advanced fo[illegible] are [illegible] accurate others absurd People often credit [illegible] and natural resources as the sole cau[illegible] America [illegible] is a rich country blessed with fertile fields broad [illegible] and rich deposits of coal oil iron copper and [illegible] The great rivers which crisscross the land are [illegible] for navigation for hydro-electric power and for irrigation purposes The climate is on the whole tempera[illegible] [illegible] will also say that America enjoys the great [illegible] [illegible] of a vast market of 1[illegible]0 million consumers [illegible] American industry and agriculture can [illegible] [illegible] artificial barriers to [illegible] count[illegible] in A[illegible] [illegible]

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[illegible] tion for [illegible] large popu[illegible] [illegible] which con[illegible] [illegible] Indeed [illegible] factor in creating [illegible] standard of living In [illegible] would automa[illegible] [illegible] that an expanding population is [illegible] The elem[illegible] [illegible] and prosperity For if produ[illegible]

tion does not increase faster than population th standard of living will fall not rise

There is another condition which we shall explore more thoroughly at a later point namely that for population to become a factor in economic progress the people must participate fully in the economic life In other words it is not enough to have many millions of people merely liv in within an economy The decisive factor is how m ny people participate fully as producers and, even more important, as consumers

In brief natural resources and growing population—by themselves—cannot guarantee prosperity and progress These factors may be compared to reactants in a chemi cal process The reactants are inactive until a catalyst is add d to transform them into a new compound In the American case the catalyst which activates the various factors and transforms them into prosperity for all is the system—the political and economic system of democratic industrialism.

Th majo innovation of the American economic system

We oft n hear that the American economic system is something d fferent something unique in the experience of mankind. There is little doubt that many of its features are unique and deserve our fullest attention a major part of this book will be devoted to them Some are like the vi ible parts of an iceberg which loom white above the surface of the sea But to comprehend the uniqueness of the American economic system we must see all its princi ples in luding the four fifths beneath the surface

Marx stres ed that capitalist production was based on the economic law that labor was a *con mod ty* and l ke any other commodity h d a certain *value* He defined the value of labor as the sum of a heap of commodities (goods and services) necessary for the survival and repro-

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duction of the working class According to Marx the capitalist would never pay laborers more than their labor values no matter how much production might increase through technological innovation and higher productivity From this theoretical nucleus most Marxist theory followed including of course the pet theme of capitalist exploitation of the workers

Marx took as his model of the capitalist system the conditions he could observe during his own time Consequently he erred in part when defining the value of labor In his lifetime labor *was* considered a commodity Indeed in some parts of the world labor is still considered and compensated *only* as a commodity In the United States however a new element of far reaching significance has been introduced Labor—i e every American working for a living—is no longer merely a commodity with a certain value working people are also viewed as potential *consumers* On the basis of this revolutionary approach many measures have been adopted with one major objective to preserve and expand the *purchasing power* of the average American

Individual compensation of course is automatically scaled to the economic importance of a person s work Since individuals differ widely in ability energy training and initiative rewards vary under any economic system But the basic point is this under the American economic system the labor force—all working Americans—is in the aggregate compensated in a way that tends not merely to assure its survival and reproduction but also to preserve and expand its purchasing power For in a free economy based on mass production the preservation of the purchasing power of the people is vital

Old style capitalist production was and in some countries still is geared to the satisfaction of a select elite consumer market The exploitation of labor was a very real possibility But when laborer and consumer were com

bined in one and the same person—when the laborer-consumer became an acknowledged entity—basic principles of the old capitalist system underwent radical changes. The Capitalist could no longer exploit the laborer because the laborer was also a potential consumer. The theory of the "exploitation of the worker" does not apply in a private enterprise economy where working people are also viewed as potential consumers.

This identification of the "laborer-consumer" is a basic innovation of the American system. How deeply this concept has changed American economic thinking is shown by the reaction of the labor unions to the revolutionary process of automation.

Automation is already a reality in American industry. In this advanced form of production the worker is replaced by automatic control devices. In other words automatic controls operate complex machinery and whole factories without direct participation by workers except as supervisory technicians at key points in the process. Automation is not limited to manufacturing plants; so-called electronic brains are taking over the tasks of office clerks, accountants and other white-collar workers.

As a result of automation fewer workers are needed to achieve the same or even greater production goals. Under the old capitalist system workers whose services were no longer needed obviously possessed no value as far as the employer was concerned. This is true if labor is viewed only as a commodity. But now labor is also the consumer who makes mass production economically profitable. Automatic control devices cannot buy the cars, the appliances, the clothes, or the food. Thus vast unemployment is incompatible with mass production.

Obviously government, business and labor unions have a common interest in preserving the purchasing power of the laborer-consumer. For this reason men like Walter P. Reuther, Vice President of the American Federation of

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II—SOME BASIC FEATURES OF THE AMERICAN ECONOMY

From the fundamental principle that *mass production calls for mass consumption which in turn depends upon mass purchasing power* a number of interesting features of the American economic system stem These features characterize an economic system which does not fit at all the image of Capitalism people in many lands have in mind when they speak of monopolies exploitation or class struggle

Mass production with a small profit per unit

The pursuit of profit remains a main objective of private enterprise However far from measuring exploitation of the working class profits play an extremely vital economic role In addition to providing a reasonable return for the investor profits are *a major source of capital* for the renovation and expansion of productive wealth. In 1955 for example the American economy grossed $391 7 billion During the same year net corporate profits after taxes amounted to $21 billion Of this amount, approximately $11 billion reached millions of individual investors in the form of dividends and interest The remaining $10 billion was used for renovation expansion and research.

Twenty-one billion dollars is undeniably a large sum of money Note however that it was not the result of a large profit per unit but of a tremendous volume of sales

Labor-Congress of Industrial Organizations do not dread the advent of automation instead they welcome it. As Mr Reuther has pointed out

" Science and technology have at last given us the tools of economic abundance and we are no longer confronted with the need to struggle to divide up scarcity

We are confident that we will not have to fight the new machines and devices Rather we will use them to bring health and happiness security and leisure and peace and freedom to mankind everywhere (Testimony before the U S Congressional Subcommittee on Economic Stability October 17 1955)

This confidence is not irresponsible optimism or empty prose It is based on the knowledge that automation need not lead to vast unemployment. On the contrary it is economically more realistic to expect that in sustaining the purchasing power of the laborer-consumer industry will gain time to develop new products and new jobs Problems of course will be numerous It will take foresight and ingenuity to cope with the difficulties affecting individuals and even whole communities But to use the words of Mr Reuther if vast social dislocations are prevented this time it will be only because the combined wisdom of private groups and government will be used to prevent them In preventing social dislocation and solving the problems associated with the revolutionary process of automation the guide will be the principle that *in order to maintain mass production there must be mass consumption which in turn depends on sustained mass purchasing power* In the American economic sysem a high standard of living for the average citizen is not only a matter of humanitarian benevolence but an economic necessity

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Forms of competition

In a fully monopolistic economy such as that of th Soviet Union the consumer has no choice He must content himself with the products of monopolistic state enterprises On the other hand the enterprise sure of a captive consumer public has no compelling economic reason to concern itself seriously with what the consumer might like to have

The opposit is tru in a free enterprise economy As we shall see later there are at least three different forms of competition in the American economy One is th direct competition among enterprises producing the same kind of goods Another is the ndirect competition among ent rprises furnishing commodities or services of a similar kind e g various types of transport, such as buses trucks airplanes railways river barges or fuels like oil gas coal and el ctricity Finally there is another form of competition or rather an interplay of counter balancing forces retailers vs manufacturers producers of finish d goods vs producers of basic materials labor unions vs employers consumers vs producers and all facing a diffuse yet powerful public opinion.

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Mass purchasing power

Mass production with a small profit per unit is a distinguishing feature of the American economy But mass production cannot be sustained unless people are financially able to absorb it After all production has no *raison d'etre* unless it serves human needs Consequently mass production depends on mass purchasing power that is on a relationship between wages and prices enabling the greatest number of people to afford the largest volume and variety of products

In a mass production economy if prices rise "too much" or wages remain too low in relation to given production the economy will be in trouble Through free interplay of business labor unions and government a fine balance is kept so that a mass consumer market is sustained.

The two dimensions of a mass consumer market

For a consumer market to be both stable and a factor for progress it must have two dimensions One is hori

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mportant s tor th sector of human relations Em ployees re no longer regard d as m re hands they are considered individuals entitled to respect. The psychologist has become an indispensable staff m mber of many cor porations Th result is a h althier rel tionship between management and workers

This is not intended m rely to win good will for m n agement. This h althier relationship is actually a prereq ui it for higher productivity In a free mass production economy good human relations are an integral part of the scientific methods used to assure economic progress.

The search fo talented men

In the competitive American economy t lent is highly valued. Since tal nt is not necessarily passed on from father to son the old type of family business has gradually given way to the modern corporation.

In this type of busin ss organization a new professional is coming to the for the business ex cutive Hi orgin as an ind vidual his family background and similar con siderations are not of prime importance Talent for ad ministration intelligence edu a ion ability—these are the qualifications that count Th penniless immigrant or th son of a miner can reach the top and become chairman of a giant corpora ion like U S Steel or Twentieth Century Fox—as B njamin Fairless o Spyros Skouras has done

The son of a high executive has a better chance to fol low hi father s footsteps if he can prove equal to the de mands of lead rship and r sponsibility However in a com petitive economy an enterprise can h rdly afford to be burdened with d ad weight for too long

A m d n w of th nking fo the nd str'al st

These n w profess onal men—the bus ness executives—

Constant search for new products and methods

A competitive economy has little room for complacency and self satisfaction If a rival develops a better mouse trap —a better product—your position in the market will be weakened It is essential therefore for the businessman to keep constantly alert To accept dogma instead of think ing to maint ... is the way we have been doing things ... bbornly to old attitudes and obsolete ... cidal for private enterprise in a free ... rase the slogan of the General Elec ... the most important product of a free ... progress American business has to ... develop new and better products ... new the more efficient th more ... tive is no longer the lonely effort ... od inventor but a conscious pro- ... ss as one of its most important ... American corporations spent six ... and development

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important s-tor the sector of human relations Em ployees are no longer regarded as m re hands" they are considered individuals entitled to respect The psychologist has become an indispensable staff member of many cor porations Th result is a healthier relationship between management and workers

This i not intended m rely to win good will for man agement This healthier relationship is actually a prereq uisite for higher productivity In a free m ss production economy good human relations are an integral part of th sci ntific methods used to assure economic progress

The search for talented men.

In the competitive American economy talent is highly valued Since talent is not necessarily p ssed on from father to son the old type of family business has gradually given w y to the modern corporation

In this type of business organization a new professional is coming to the for the business ex cutiv His origins as an individual, his family background and similar con siderations are not of prime importance Talent for ad ministration intelligence education ability—thes are the qualifications that count The penniless immigrant or th son of a miner can reach the top and become chairman of a giant corpor tion like U S Steel or Twentieth Century Fox—as B njam n Fairl ss or Spyros Skouras has done

The son of a high executive has a better chan e to fol low his father s footsteps if he can prove equal to the de mands of lead rship and responsibility However in a com petitive e onomy an enterprise can hardly afford to be burdened with dead weight for too long

A modern way of thinking for the ind strialist

These n w professional men—the business executives—

Constant search for new products and methods

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Business and education

Scientific research has today become a major task of American private enterprise The scientist th edu ator the specialist is no longer a stranger to th business world Nor is the modern businessman the uncouth person often portrayed b cartoonists More often than not e and it is now quite common to and educators on the top levels of orations The interdep ndence of s another striking feature of the

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are not uniform standardized business wizards They are human beings with the strengths and limits of other men everywhere Their motivations vary just as much as their personal tastes and backgrounds They seem, however, to have one thing in common a realistic attitude toward the social function of business The day of the industrialist whose thinking began and ended with the word "profit" is past

The complexity of modern business and its influence on all aspects of society demand that the business executive of today be concerned not only with profits markets production curves but also with the larger social structure of which business is a part Modern business executives must be primarily interested in sustained prosperity—not in quick profit making. Thanks to a broad understanding of the business and more business executives are socially responsible men ... of American

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Labor unions in a free economy

In addition to private enterprise and a vigilant government, the system depends for its smooth functioning on the existence of free and strong labor unions. By their constant pressure for more benefits to the workers, unions have been instrumental in the development and preservation of a mass consumer market.

American labor unions in the twentieth century, in large part because of the influence of Samuel Gompers, a long time president of the AFL, accept the basic tenets of the free enterprise system and concentrate their efforts on gaining a larger share of the nation's income for their members. The American worker's high standard of living proves their wisdom in having chosen this path.

Labor leaders best serve the long term interests of wage earners if they live up to their responsibility to the nation as a whole and view labor as part of an over-all social structure. More and more labor leaders are proving equal to the task.

The American government as a balancing factor

The federal government is another factor of prime importance in the economy. Though there may be differences of opinion over the proper extent of its role, there is no serious disagreement as to the existence of such governmental responsibilities.

In an economy based on private enterprise economic

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The important role of advertising

The social and economic significance of advertising in the United States today can hardly be overemphasized. Though it often comes under sharp criticism for alleged misdeeds, the adv rti ing indu try plays a l ading role in America's p ogre s. A ma s produ tion economy requires a wide aud nce and it is up to the advertising industry to deliver th a

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Aside from these considerations critics of mass production seem to overlook its main effect They forget that masterpieces of old which we admire today in museums or stately mansions do not present a true picture of the past Possession of those articles we consider today to be products of a high culture was restricted to a small privileged minority A silver cup designed by Benvenuto Cellini is undoubtedly a masterpiece but it was created for a king or a prince not for ordinary people For a long time culture was a luxury item " reserved for the privileged few

Before the advent of mass production people did differ an aristocrat or a wealthy merchant lived in a different world from the lower classes Less than a century ago—and in some countries even today—a visitor from another planet would have had no difficulty in distinguishing between an aristocrat and an innkeeper because of their sharp differences in action and dress

Mass production has changed this in the United States By making most products available to most people it has led to considerable elevation of the *general* cultural level and has toned down marked differences Go to an American church on a Sunday morning If you expect to learn who is a wealthy businessman and who is a worker who is the mayor s wife and who is the janitor s daughter by the way they dress and behave you will have a rather difficult time

A basi objective of Americans is that the greatest majority of the people should be able to afford the widest vari ty of products and services American industry constantly strives to transform as many of today s luxury as as possibl into items of wide consumption

This does not me n of course that Americans expect to eliminate luxury items ltogether One of the many manif stations of progress is th d velopm nt of n w products Inevitably every such new product is in short supply at the beginning until method for its mass production a d vised By the time this is accomplish d new products are creat d and the p ocess starts over again Unless we put a ceiling on progress and ban new products there can never b a time wh n th re will be no luxury items In spite of certain promises th day when everyone will have according to his need seems rath r remote if by this v e m an everyone is to have all he needs of even luxury goods

At the same time technology and increased productivity may reduce the lag between development of a new product and its mass production and d stribution American free enterprise has constantly reduced the time gap between stages of production.

H gh ages and lo prices

Th relationship of prices to wages and salaries is important in sustaining a m ss consumer market It is quite natural for the consumer to favor low prices he can then buy more products with his money On the other hand the producer naturally favors high prices and low wages in this way he can realize the highest possible profit per unit This is basic thinking under the old capitalist system But democratic industrialism and mass production have introduced new economic thinking In view of the close relationship between mass production

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Quite often n otiations are protract d and argum nts become heated but as a rule a compromise solution is reached One may cite as examples the agreement givin the automobile workers a guaranteed annual wage or the recent increase of $2 50 per day for miners (See Chapter X) The key factor in the constant readjustment of prices and wages is productivity

How does productivity increase?

Productivity in the Unit d States has increas d r gularly on an average of 2 percent yearly during the last fifty years Productivity of course does not increase automatically nor does it come about by natural law On th contrary the increase in productivity of American industry and agriculture has been the result of practical incentives and imaginative techniqu s

The motive of profit, for one makes increasing productivity a *must* in an economy of competitive privat enterprise The sound way to increase profits is to cut the cost of production per unit and expand the margin of profit by increasing productivity i e by using both capital and labor more efficiently This is what American industry and agriculture have done with remarkable vigor

To this end Ameri an enterprises have rel ed heavily on scientific research and have introduced with the least possible delay innovations able to increase productivity A recent study of American economic development (*America's Needs and Resou ces A New Survey* by J Freder Dewhurst and associates) points out that the net output of goods and services in 1950 was twenty five tim s what it was in 1850 while the workin force increased only eight times Allowing for the shorter work week of 1950 th American economy with less than five times as large an actual input of human energy achieved

and mass consumption it is clear that the long range interest of the producer lies not in quick and high profits per unit but on a sustained mass consumer market. This market obviously depends on wages and prices which permit the largest number of people to afford the widest variety of products Thus high wages and low prices are not only in the interest of the consumer but also of the producer

Of course the phrase high wages and low prices is not very precise What really counts is the relationship between prices and wages not their actual level at a given time

Yet if there is a broad community of interest between laborer-consumer and producer —the reader may interject— why are there labor disputes in the United States? One should not lightly dismiss human weaknesses which often take precedence over sound economic thinking Still disputes may arise from an honest difference of opinion over a very important factor productivity Without an increase in productivity an increase in wages will create inflationary pressures But productivity cannot be measured accurately in all types of work Until more precise measures of productivity are developed labor management disputes are bound to come up However U S labor management disputes have lost much of the extreme bitterness of earlier days More often than not they are resolved at the conference table through collective bargaining Estimates prepared by the U S Bureau of Labor Statistics show that in 194[illegible] for example [illegible]4 out of every 25 new labor management contracts were negotiated peacefully Between 1947 and 195[illegible] the [illegible] loss of time from strikes was less than [illegible] of 1 per cent of the total man-days worked And in 1954 the total [illegible] because of work stoppages was only 0.[illegible] per cent of total man-days worked

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an over all production twenty five times as large as that of 1850 In other words U S labor productivity in the last hundred years has multiplied more than five times It would have taken a worker three weeks at 70 hours per week in 1850 to produce as much as an average worker turns out today in a single 40 hour week If the present rate of productivity increase continues in another hundred years the American economy will produce as much in one 7 hour day as it now produces in a 40 hour week.

How did this great increase in productivity per worker come about? Certainly it did not result from the ability of the average man to produce more with his muscle power Productivity is only to a limited degree either the result or the measure of labor efficiency The competence of management the skill of the individual worker or the diligence of the farmer have been secondary factors in the sharply ascending productivity curve over the past several decades The most energetic and skillful shoemaker working long hours under the ablest supervision but with the handtools of a century ago could not approach the output of today s semi skilled operator who works fewer hours but with power driven machinery The fabulous increase in U S productivity has been achieved not because Americans now work harder or more skillfully it has been the result of constant effort to devise and use better techniques and more and better machinery America has multiplied the output of human effort through vast inanimate energy

Nevertheless skill effort and the cooperation of the individual in the process of production continue to be of great importance Their lack can destroy or at least decrease the efficiency of good machinery planned factory organization and ample power Recognizing this American business management has given particular attention

to the human factor in production. Management psychol ogists have shown that the moral of the work-r is vitally import_nt in increasing productivity

Industrial psychology is a new branch of science which d als with th human factor in production. It began prac tically speakin only three decades ago almost by acci dent. One corporation the Western Electric Co wanted to determin to what extent production would increase if lighting were improved in a department where girls as sembl d telephone equipment. To everyone s surprise including the psychologists it was found that merely ex perimenting with the lightin brought greater production —regardless of whether light was increased or decreased. Production even rose when the experimenters pretended to put in stronger light bulbs but actually put the same on s b ck.

West rn Electric realized something strange was hap pening the firm spent five years hunting the true rea_on for the production rise Finally it dawned on the re searchers the workers simply responded to attention being paid th-m The experiment itself told them the company was interested in them, they felt important—and they worked hard-r

Other interesting and useful psychological discoveries have followed The researchers have learned for example that the old time industrialist was utterly mistaken in his belief that his employees would accomplish more if kept on the job for ten or twelve hours They have learned that rest periods contribute to efficiency as a result the coffee break during which workers stop to rest and talk is universal in Americ n business

Also at l ast partly as a result of their researches the modern American factory is a masterpiece of indus trial architecture often located in pleasant rural surround ings—and is a far cry from the London sweat shops of

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Increased product vity and a rising standard of living

Lenin once wrote 'Surplus capital will never be utilized for the purpose of raising the standard of living for the masses for this would mean a decline in profi s for the capitalists An elementary und rstanding of the American econom c system betrays the absurdity of Len in s statem nt For increasing productivity has gone hand in hand with a rising standard of living for the masses The improvement in the standard of living is expressed in the relationship of wages and prices The present-day American wage-earner can buy more and better goods while working l ss time than ever before in history

The surplus capital created by increased productivity has been used steadily to raise the living standards of the masses again for the reason that mass production requires mass consumption and both depend on mass purchasing power

For practical results consider the work time necessary to earn the price of consumer items in the two largest in dustrial nations of our time The average American worker must work e ght or ten hours to buy a pair of shoes his Soviet counterpart must work 70 to 100 hours to by a pair of comparable quality The American must work 25 to 30 hours to buy a suit the Soviet must work 1 0 to 140 hours W th one hour s wages the American can buy more than

Karl Marx experience Not long ago I visited the workers club at the International Business Machines plant n r Poughkeepsie N Y It included a theater with a gigantic revolving stage bowling alleys tennis courts, shootin galleries a golf course library swimming pool and lounge

More than 25 000 American companies maintain recre ational program for their employees according to the National Industrial Recreation Association of Chicago Ill industry sp nt a billion dollars in 1956 alone on recreation for employe s Today most American firms have large trained indu trial relati ns staffs experts who are trained in the t chniqu of furthering a healthy re lationship between c mp iny and employees Their guid ing principle is that high morale is basi to high produc tivity

The const int driv to ra pr ducti ity is not confined to industry a ri ulture I f el it impa t The Am ri can farmer c ns hi n l n l H h th trongest per sonal incenti t t f r r t r p lu ti ty larger crops per a r m in hi h r in e f h r nd his family

While indu try h r n in ur n population has soared the d m n t f r l l r l pr du t has likewise expanded ev n t tir i l h r h en l ving the land to join urb in in l t il l t n r Th nly way to meet the in r a ing l l f r f l lu t was and is to incre pr du t v ty p l l

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Lenin once wrote "Surplus capital will never be utilized for the purpose of raisin the standard of living for the masses for this would mean a decline in profits for the capitalists An elementary understandin of the American economic system betrays the absurdity of Lenin s statement For increasing productivity has gone hand in hand with a rising standard of living for the masses The improvement in the standard of living is expressed in the relationship of wages and prices The present-day American wage-earner can buy more and better goods while working less time than ever before in history

The surplus capital created by increased productivity has been used steadily to raise the living standards of the masses again for the reason that mass production requires mass consumption and both depend on mass purchasing power

For practical results consider the work time necessary to earn the price of consumer items in the two largest industrial nations of our time The average American worker must work eight or ten hours to buy a pair of shoes his Soviet counterpart must work 70 to 100 hours to by a pair of comparabl quality The American must work 25 to 30 hours to buy a suit the Soviet must work 1 0 to 140 hours With one hour s wages the American can buy more than

a kilo of meat, while his Soviet equal must work three or four hours. In 20 days the American can earn the price of a modern refrigerator or electric stove; the Soviet must work at least two months for these items.

Americans have reaped the rewards of productivity not only in material products but also in leisure time and recreation. These have been blessings of increasing productivity. Leisure time has nearly doubled for the average employed American since 1900 and seems likely to keep on increasing. Figures compiled since 1910 indicate that Americans have tended to take two-thirds of the potential increase in goods and services and the remaining third in shorter working hours and more leisure time.

This [illegible] leisure time has been instrumental in the d[illegible] of many new multi million dollar in[illegible] recreation[illegible] cultural [illegible] or render services for [illegible]. The new industries [illegible] habits of Americans. [illegible] or playing golf [illegible] Today neither would [illegible] and higher per[illegible] cultural eleva[illegible] United States culture is [illegible] orchestras [illegible] symphony or [illegible] million books are sold [illegible]

At pr[illegible] week but the tr[illegible] hour days each and [illegible] paid [illegible] work week tion the w[illegible] of automa two[illegible] balance be- duction of impr[illegible] intro- bring higher worker prod[illegible] will in turn pr[illegible] s[illegible] duction [illegible] justed so

that, with fewer hours of effort people will be able to buy more and better goods This is not idle prophecy it is sound prediction based on the American economy's past and present.

the vast majority of all strata of people must take part in the economic process as consumers The market must have both "width and depth. In many countries, it has the former but not the latter: that is the market is shallow No matter how populous these countries may be production—and prosperity—must remain limited Their consumer markets lack depth.

In the United States there was a constant effort over the years to achieve both, with the stress first on width," and now on depth.

The first objective was accomplished by removing obstacles to free, unrestricted flow of interstate commerce

Removing man made obstacles to trade

The unsatisfactory experience of the original 13 American states in developing interstate commerce under the Articles of Confederation was influential in the thinking of the men who framed the Federal Constitution in 1789 Article I Section10 establish d that no State shall without the consent of Congress lay any imposts or duties on imports or exports This in effect, created a free trade area within th boundari s of the United States

At the same time the Constitution made the Congress responsible for regulatin commerce between the states and with fore gn nations

In these early years of the new nation most comm rce was carried via water along the Atlantic seaboard and the river waterways Roads were few and primitive and land transportation costly For these reasons the first detailed legislation affecting interstate commerce dealt with sea and river navigation.

The freedom of interstate commerce f om local interference was also strengthened by several early decisions of the U S Supreme Court In 1824 the Court ruled that if there is any one object riding over every other in the

V—A MASS CONSUMER MARKET

Capitalism has been condemned by its critics as the economic system which benefits the few. Whether the accusation was levelled correctly at old-style capitalism is immaterial. Of much greater practical significance is that American People's Capitalism of today is geared—by its very structure—to benefit the many. Mass production of consumer goods cannot go on without a mass consumer market.

Ir req

All r ... f ... to guarantee a mass consumer market ... people ... with the millions of ... ing. But ... high standard of living ... part full ... consumer ... only when they take ... territory ... the key to a mass ... participate in the ... live within ...

People wh... financially able to ... of life may b... mass consumer market ... necessities ... way untapped natural ... far as this ...

As was noted earlier (Ch. IV) ... must have ... dimension ... market from one end of a large economic unit to the other end ... tinuously

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Prer qu i f c n i n vlet

A larg p pulat n l d i guarantee a mass consumer m rk t If t l tr with many millions of people woul aut n t lly m v high tandard of living But peopl t n ly nly when they take part fully in th n i l the key to a mass consum r ma k t l n i rul ns live within territorial b un l t financially able to participat in th n P opl wh c n of life may be n l n l mass c nsumer ma k t n l are n cessities way untapp d n tural r t far as th As w as noted earl r (Ch IV) n r semble in a must have two dimen i n it r t ext ter m rket from one end of a large c nomic unit to t t nucally other and

miles of trackage of all kinds—the total exceeding 25 times the circumference of the earth. Running on these tracks are some 43 000 locomotives two million freight cars and 44 000 passenger coaches and sleepers, plus another 1 0 000 cars of special or auxiliary types

In addition there are nine million trucks on American roads and about 30 000 interstate and long-distance buses, travelin between cities and towns and serving rural areas. Last year 53 million motor vehicles—44 million of them privately-owned—travelled more than 500 billion miles!

The most important early means of transportation the water routes have continued to play an important role in American economic life Inland waterways have greatly expanded their traffic capacities having been improved by locks and dams and by the introduction of specially designed diesel-driven towboats Raw materials agricultural products and fuels still comprise the bulk of waterways cargo but semi finished and finished goods, like iron and steel products petroleum goods chemicals and machinery are now being carried via lakes rivers and canals in increasing volume

The startling expansion of air transportation can hardly be overlooked. Today more than 25 million people travel by air each year within the United States Equally the telephones and telegraph networks are now so finely dispersed that even comparatively sparsely settled areas are well served Currently there are more than 50 million telephones in use throughout the United States

If we were to confront a map of the American nation that showed railroads canals navigable lakes and rivers airlines highways and the communications systems we would see a veritable maze of criss-crossing lines Like the arteries of the human body these arteries of transportation and communication channel the life-blood of the American economy to the remotest corners of the land They make the horizontally wide market a reality

adoption of the Constitution it is to keep comm rcial i tercourse among the States free from all invidious and particul ir restraints

Later de isions tablished that powers granted to Cor gress over int rstate c mmer e by he Constitution wer not confined to wh it ver was kn wn or in use at the time of the Constitution s ad p n but followed the progr ss of the country By l of th devel pm nt of the railroads in the C ngr s to en t th first F deral laws regulat overland inte tat c mm

These con pt opponents In s m int rstate ommerce had the state l gi l n n in the el t int r tat ups ex rt d pressur fo time ift r tt the Supr m C urt held such regulation w s bey n l th P t stat p wer It nsidered as an el mentary and l n rul th t there can be no divid d auth r t regulati ns t C n r t nm r and that th years th C urt commerc al r ul n ne Throughout th sam p l t n that in al on and th

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The greatest American uld has since the end of the Civil W r in 20th Century railroads in the Unit d S com mately 240 000 mil s of main tracks and mi rox 000

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Personal income and a consumer market

But width alone is not enough A mass consumer market must also have depth To achieve depth government business and labor have worked together and separately to re stratify personal incomes Often not all parties were conscious that the end result of their efforts was development of the mass onsumer market Motives varied. Yet planned or not the outcome has been the growth and maintenance of th market

The basic part of this market are the middle income families Statistical studies demonstrate that an increase in personal income is not ne e sarily followed by an eq increase in consumption A family with a total income of $1 700 is likely to spend alm t the entire amount on consumption On the th r hand family with a $15 000 income may pend nly $ 000 n c n umption and save the rest A family with a rs lir inc me sav $50 000 after taxes m v ave and ns t more than two-thirds of the total Ot u ly t n does not increase in direct propo ti n

A low in ome f m ly m consumption s t ll spend all its money for small The hi h will still be rather to spend only a sm ll th r hand is apt withholding the re market can d pend n nsumption— a wealthy min rity It consum on a vast middle in upers nor on around a level wh re ut depend consume is satisfactory th incomes pensity to

The re stratifi ati n f pe al

The devel pment f the m d le been the result or even the obje tive s not hiloso-

phrzin or d liberate plannin,. Yet government, business and organiz d labor have contributed in many ways to i s growth. Often measures were taken for humanitarian rea sons, to improve the lot of working people d mocratic institutions undertook to correct the inequalities of the old ca, talist system When these measures proved economi cally sound, they became integral elements of th new system.

Other changes have been the result of practical experi ence and economic necessity In 1914 Henry Ford raised the daily minimum wage of his auto workers to $5 At the time he was probably interested in attracting more skilled workers to his factory in order to step up production cut th cost per unit and sell at a lower price—thereby increas in his sales volume He may not have understood the vast implications of his decision, which is often cited as the beginning of the n w approach to prosp rity through mass production and consumption Aware of the implications or not Ford was impelled by the basic principles of the sys tem whi h were already in th shapin to adopt a labor and wage policy destined to have a broad impact on Amer ican economic thinking.

As might be expected, the Ford wage policy was not greeted by contemporary businessmen with enthusiasm It did violence to their conception of old style capitalism. In blazin new trails of business behavior Ford, like most pioneers encountered derision and anta onism colleagues and competitors resented the intrusión of new practices In their well-known shells they felt safe Who knew what lay outside?

But times were changing fast Th American industrialist today accepts as basic such concepts as mass production and small profit per unit and high wages and low prices " He recognizes the need for a great bulk of middle incom famil es

The continuing growth of the middle income group is

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A low incom famil m ell pend all its money for consumpti n . . . small The h gh in . . . to spend only a small p . . . withholding the re t in . . . market can d pend c n u . . . a wealthy minority It . . . on a vast middle in . . . around a level wher . . . consume is satisf tory . . .

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. . . philoso-

tax. Ind d, to take home $64 000 a TV quiz cont stant must win almost $500 000

Hard as the progres ive taxation system m y seem on the quiz winner its purpose is not to punish wealth On the contrary American tax laws contain many provisions in tended to channel the greater income of the wealthy into productiv sectors of the economy This is accomplished by treating investment income more leniently

On the whole the American taxation system is fair as well as economically sound By levelling income differences and strengthening middle incom groups it has been a major factor in developing the American mass consumer market.

Co sumer credit and the American market

Consumer credit has been criticized for several reasons yet it has played a key role in the development and main tenance of the American mass consumer market. Let us see how consumer credit operates in practice

Cons der a young couple married just a year and ex pectin a child. They earn $5 000 and would like to have a house that sells for $15 000 Their income and way of life allow them to save perhaps $800 or even $1 000 annually Under these conditions they would have to save for 15 years to buy the house But by then their child will be grown and preparin to leave his parents for a separate life The couple would no longer need a house and the market for houses would have lost a customer

There are millions of new fam lies facing similar circum stances obviously if the price of houses h d to be paid in full at the tim of purchase the demand for houses would be sharply reduced. At this point consumer credit steps in. Our imaginary coupl with an income of $5 000 a year cannot buy a $15 000 house all at once But over 20 years the family will have earned an income of $100 000 So

traceable in large part to the labor unions with their constant effort to win greater pay and improved working conditions. Technological progress has supported the unions' efforts. It has brought the need for better-educated [illegible] greatly skilled men in the factories. The jobs for unskilled labor grew less; the worker has tended to become a t[illegible]cian earning more pay and with it a changing way of life. His higher income and changed living pattern put him in the middle income group [illegible] and practically speaking he can now afford the [illegible] and civic [illegible] previously beyond reach.

An equally significant [illegible] been played by the American government [illegible] more stratification has [illegible] fiscal and taxation policy [illegible] particular [illegible] The Federal income tax is of [illegible] comes [illegible] $5,000 in [illegible] and large in- [illegible] the family with [illegible] the family with a [illegible] percent [illegible] ten percent of the total [illegible] family with [illegible] will pay $ [illegible] 000 or 20 [illegible] than half [illegible] by rising rates. The

The levellin[illegible] $[illegible]0,000 will give up m[illegible] teresting [illegible] annual [illegible] is quite [illegible] ple arithm[illegible] one with an the income [illegible] $400,000. Sim- After taxes [illegible] 5 times second $600,000 [illegible] are paid the in[illegible] 000 and th[illegible]

People all [illegible] only six times American tel[illegible] test [illegible] popular cult question [illegible] a con Shakespeare $64,0[illegible] take $64,000 [illegible] Revenue will tak[e] almost [illegible] internal [illegible]

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using consumer credit they buy the house now—when they really need it—and pay for it little by little while they enjoy its use

The buy now pay later concept has vastly changed the habits of the American consumer He can buy on credit everything from a dress or a pair of shoes to a stove or a tractor Hundreds of thousands of housewives visit the stores every day and make huge numbers of credit purchases They use charge accounts which enable customers to defer payment for goods until a specified time When credit is extended in a charge account the customer pays no more than if he had paid in cash at the time of purchase

In the other kind of credit buying on the well known installment plan the sum total of the installments equals the cash price plus a carrying or service charge If Mrs Jones wanted a new washing machine that carried a price tag of $199 she might decide to buy it on an easy payment plan She might make a down payment of $5 and 12 monthly payments of $17.50 each This would add up however not to $199 but to $215 the additional $16 would be the carrying or service charge Still Mrs Jones preferred to buy on the installment plan and not for cash Why B[illegible] it [illegible] ful th[illegible] h[illegible] uld have paid the entire amount in [illegible] makes it po[illegible] [illegible] installment plan they want [illegible] when th[illegible] [illegible] to enjoy the things

The American h[illegible] of carrying [illegible] $199 and want [illegible] the added burden in cash she would h[illegible] If she had washing machine But [illegible] for it down payment [illegible]—the pay for all of them later [illegible] small

Thus she enjoys [illegible] and things she [illegible] installments would prefer that their better halves did not have [illegible] hands

irresistible inducements to buy But husbands too think quite highly of installment plans as a method of acquirin„ a new car In any case consumer credit is an important fact of Am rican economic life

Non of the criticisms of consumer credit are totally un founded. It has been pointed out that consumers could save the necessary sums and buy goods for cash avoiding the extra carryin charg Yet it seems a quirk of human nature that people are more likely to save in ord r to pay debts than to put money aside for later purchases

Oth r critics say consumer credit exerts inflationary pres ure on the economy While not wholly invalid, this charge should not lead to the extreme step of bannin credit as altogether harmful. In practice Ameri an consumers have been moderate in their use of credit They have tend~d to borrow less than their total holdings Thus in 1954 Am ricans owed $75 billion in housing mortgages $30 billion for durabl purchases charge accounts and personal loans, and $10 billion for so-called financial loans that is loans from banks and insurance firms The total con sumer d bt was about $115 bill on.

This is a stag„ering sum acknowledgedly Yet, at th same time American consumers held claims on others for $380 billion Consumers were owed a large part of the busi ness debt, as well as a large part of the government debt. Consumers also held a large part of the ums owed by financial institutions in the form of insurance policies and bank d pos ts All in all American consumers have tended to spend less than their total incomes

*

The American syst m has developed a variety of incen tives and devices over the years to meet specific economic needs Th Federal government through trade social and fiscal l·gislation the business community through in creased p oductivity consumer cr dit and contractual

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The Ameri... of carryin... $19) and want d... in cash ... washin... down payment ... pay for all ...

Thu she ... thing sh... would prefer that their better ...

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VI—COMPETITION OR MONOPOLIES

A m jor them of Marxist theory is that a capitalist econ omy leads toward ultimate concentration of wealth in a few gianti enterprises whose owners will exploit without restraint a vast expropriat d proletariat Wealth and power will concentrate in the hands of huge monopolies, and the fru ts of labor will be enjoyed by a f w mighty overlords whil labor is left enough for mere subsistence The argu ment is often heard that the American economy is domi nated by these monopolies and that they really control th political and economic life of the nation Against this we have th evidence that rampant exploitation is economi cally impossible in a system based on *mass production mass con umpt on and ma s pu chasing power* and the American claim that theirs is a competitive economy This important issue merits close study

Monopoly o p ice comp t t on?

It may be helpful to recall that monopoly" (one seller) m_ans in effect complete lack of compet tion In an econ omy dominated by monopolies the consumer has *no cho ce* but to buy the p oducts of monopolistic enterprise There is no other suppl er and this is the essence of monopoly In practical effect, the monopolistic enterprise deals with a *capti consi me*

Dealin with a captive consumer monopolistic enter

prise can determine with impunity the quality and price of products. Such enterprises can also limit production ... margin of profit ... in marketing and offer ... wages to workers ... their employer for their skills. ... tyrant and exploiter ... become an economic monopolist ... Does such absolute ... must ... The answer ... leading ... exist because ... sumption are ... monopolies economy ... production and con... with a free mass production

... for example ... one ... harmful. In spe... company ... people ... table. A city ... a single ... company ... bus com... under ... because quality ... to have ... operates ... faults ... In ex... ditions ... opera... have ... which ... of ... con... sumers ... means

Pri... ... lies possible ... on mass ... is certainly ... always vegetable ... war ... each ... be ... ture ... from ... and ... less and

less feasible Costs of production become more or less uniform throughout an industry the prices of raw materials vary little the margin of profit is practically the same for similar enterprises wage agreements with labor unions often cover not just the workers of one enterprise but the workers of an entire industry For these reasons the pure price competition of laissez faire capitalism applies in only a small sector of the American economy

In many cases, unrestrained price competition is not desirable As the components of cost and consequently of selling price become more uniform, a price-slashing war among rival producers may not be advantageous to the over all economy It may lead to dangerous reduction of profits and curtailment of funds for expansion and renovation. Some enterprises facing failure may resort to th expedient of lowering quality standards Furthermore any attempt to minimize losses by lowerin wages would be bitterly opposed by labor unions and might hav serious social consequences In brief, unrestrained price competition could undermine the very foundations of the system if it were applied at all times and in all cases

Combating monopolistic practices

The strong opposition of the American public to unrestrained monopoly is not a recent phenomenon This hostility toward unrestrained monopoly and questionable business combinations goes back to the days of the American colonists One cause of the American Revolution was the attempt of English commercial and industrial interests to obtain through legislation monopolistic power over the import of manufactured goods into the colonies British capitalists also wished to curb colonial manufacturers and make England th sole market for colonial raw materials

Throughout its history the American nation has held the conviction that individuals should be free to exercise

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THE DECLARATION OF INDEPENDENCE

[July 4 1776]

The unanimous Declaration of the thirteen united States of America

WHEN IN THE COURSE OF HUMAN EVENTS it becomes necessary for one people to dissolve the political bands which have connected them with another and to assume among the Powers of the earth the separate and equal station to which the Laws of Nature and of Nature's God entitle them a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation

We hold these truths to be self-evident that all men are created equal that they are endowed by their Creator with certain unalienable Rights that among these are Life Liberty and the pursuit of Happiness That to secure these rights Governments are instituted among Men deriving their just powers from the consent of the governed That whenever any Form of Government becomes destructive of these ends it is the Right of the People to alter or to abolish it and to institute new Government laying its foundation on such principles and organizing its powers in such form as to them shall seem most likely to effect their Safety and Happiness Prudence indeed will dictate that Governments long established should not be changed for light and transient causes and accordingly all experience hath shown that mankind are more disposed to suffer while evils are sufferable than to right themselves by abolishing the forms to which they are accustomed But when a long train of abuses and usurpations pursuing invariably the same Object evinces a design to reduce them under absolute Despotism it is their right, it is their duty to throw off such Government and to provide new Guards for their future security —Such has been the patient sufferance of these Colonies

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tenure of their offices and the amount and payment of their salaries

He has erected a multitude of New Offices and sent hither swarms of Officers to harass our People and eat out their substance

He has kept among us in times of peace Standing Armies without the Consent of our legislature

He has affected to render the Military independent of and superior to the Civil Power

He has combined with others to subject us to a jurisdiction foreign to our constitution and unacknoi ledged by our laws giving h s As ent to their acts of pretended legislation

For quartering large bodies of armed troops among us

For protecting them by a mock Trial from Punishment for any Murders h ch they should commit on the Inhabitants of these States

For cutt ng off our Trade with all parts of the world

For imposing taxes on us without our Consent

For depriving us in many cases of the benef ts of Trial by Jury

For transporting us beyond Seas to be tried for pretended offences

For abolish ng the free System of English Laws in a neighbour ng Pro nce establish ng therein an Arbitrary government and enlarg ng ts Boundaries so as to render it at once an example and fit nstrument for introducing the same absolute rule into these Colon es

For taking a vay our Charters abolishing our most valuable Laws and alte ng fundamentally the Forms of our Governments

For su pend ng our own Legislature and declaring themselves in ested th Power to legislate for us in all cases whatsoever

He has abd cated Government here by declaring us out of his Protect on and waging War against us

He has plundered our seas ravaged our Coasts burnt our to ns and destroyed the lives of our people

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For taking away our Charters abolish ng our most valuable Laws and altering fundamentally the Forms of our Governments

For suspend ng our own Legislature and declaring them sel es in ested w th Power to legislate for us in all cases hatsoe er

He has abdicated Go ernment here by declaring us out of h s Protection and waging War against us

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dependent States that they are Absolved from all Allegiance to the British Crown and that all political connection between them and the State of Great Britain is and ought to be totally dissolved and that as Free and Independent States they have full Power to levy War conclude Peace contract Alliances establish Commerce and to do all other Acts and Things which Independent States may of right do And for the support of this Declaration with a firm reliance on the Protection of Divine Providence we mutually pledge to each other our Lives our Fortunes and our sacred Honor

JOHN HANCOCK.

New Hampshire

JOSIAH BARTLETT
WM WHIPPLE
MATTHEW THORNTON

Massachusetts Bay

SAML. ADAMS
JOHN ADAMS
ELBRIDGE GERRY
ROBT TREAT PAINE

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ARTICLES OF CONFEDERATION

(*November 15 1777*)

To all to whom these Presents shall come we the undersigned Delegates of the States affixed to our Names send greeting

WHEREAS THE DELEGATES of the United States of America in Congress assembled did on the fifteenth day of November in the year of our Lord One Thousand Seven Hundred and Seventy-seven and in the Second Year of the Independence of America agree to certain articles of Confederation and perpetual Union between the States of Newhampshire Massachusetts bay Rhodeisland and Providence Plantations Connecticut New York, New Jersey Pennsylvania Delaware Virginia North-Carolina South-Carolina and Georgia in the Words following viz.

ARTICLES OF CONFEDERATION AND PERPETUAL UNION BETWEEN THE STATES OF NEWHAMPSHIRE MASSACHUSETTS-BAY RHODEISLAND AND PROVIDENCE PLANTATIONS CONNECTICUT NEW YORK NEW JERSEY PENNSYLVANIA DELAWARE MARYLAND VIRGINIA NORTH CAROLINA SOUTH-CAROLINA AND GEORGIA

ARTICLE I The stile of this confederacy shall be "The United States of America.

ARTICLE II Each State retains its sovereignty freedom and independence and every power jurisdiction and right which is not by this confederation expressly delegated to the United States in Congress assembled.

ARTICLE III The said States hereby severally enter into a firm league of friendship with each other for their common defence the security of their liberties and their mutual and general welfare binding themselves to assist each other against all force offered to or attacks made upon them or

capable of be ng a delegate for more than three years in any term of six years nor shall any person being a delegate be capable of holdin any office under the United States for which he or another for his benefit receives any salary fees or emolument of any kind

Each State shall mainta n its own delegates in a meet ng of the States and v hile they act as members of the committee c h St tes es in Congress

Freedom of speech and de ss shall not be mpeached or questioned in any court or place out of Congress and the members of Congress shall be protected in their persons from arrests and imprisonments during the time of the r go ng to and from and attendance on Congress except for treason felony or breach of the peace

ARTICLE VI No State without the consent of the United States in Congress assembled shall send any embassy to or rece ve any embassy from or enter into any conference agreement all n e or treaty with any king p nce or state nor hall any person hold ng any office of profit or trust under the United States or any of them accept of any present emolument office or title of any k nd whate er from any king p nce or fore gn state nor shall the United States in Congress assembled or any of them grant any title of nobil ty

No two or more States shall enter nto any treaty confederation or all ance hate er bet een them without the consent of the United States in Congress assembled specifying accurately the purpo es for which the same is to be entered into and how long t shall cont nue

No St te shall lay any mposts or duties which may interfere with any stipul tions in treat es entered into by the United States in Congress assembled with any king prince or state in pursuance of any treaties already proposed by Congress to the courts of France and Spain

No vessels of war hall be kept up in time of peace by any

capable of being a delegate for more than three years in any term of six years nor shall any person being a delegate be capable of holding any office under the United States for which he or another for his benefit receives any salary fees or emolument of any kind

Each State shall maintain its own delegates in a meeting of the States and while they act as members of the committee of the States

In determining questions in the United States in Congress assembled each State shall have one vote

Freedom of speech and debate in Congress shall not be impeached or questioned in any court, or place out of Congress and the members of Congress shall be protected in their persons from arrests and imprisonments during the time of their going to and from and attendance on Congress except for treason felony or breach of the peace

ARTICLE VI No State without the consent of the United States in Congress assembled shall send any embassy to or receive any embassy from or enter into any conference agreement alliance or treaty with any king prince or state nor shall any person holding any office of profit or trust under the United States or any of them accept of any present emolument office or title of any kind whatever from any king prince or foreign state nor shall the United States in Congress assembled or any of them grant any title of nobility

No two or more States shall enter into any treaty confederation or alliance whatever between them without the consent of the United States in Congress assembled specifying accurately the purposes for which the same is to be entered into and how long it shall continue

No State shall lay any imposts or duties which may interfere with any stipulations in treaties entered into by the United States in Congress assembled with any king prince or state in pursuance of any treaties already proposed by Congress to the courts of France and Spain

No vessels of war shall be kept up in time of peace by any

that sh ll be incurred for the common defence or general wel fare and allowed by the Un ted States in Congress assembled shall be defrayed out of a common treasury which shall be suppl ed by the se eral States in proport on to the value of all l nd th n each State gr nted to or surveyed for any person as sucl l nd and the bu ldings and improvements thereon sh ll be est mated a ord ng to such mode as the United States n C ngr s assembled hall from t me to time direct and appo nt

The taxe f p t that pr port n hall be l id and lev ied b th utl t nd l rect on f the Legislatures of the se eral S w tl n tl e t me agreed upo b the United States C n res ss nbled

ARTICLE IX The U ted St tes n C gress assembled shall h tl e l nd ex lu e r gl t nd po er of deter min ng n pea e nd x cpt the a n entioned in the s xth t l – f sen l n d ece ng bass dors—enter ing n tre l all n p o d d tl t no treaty of comm h ll be de he by the le l t e po er of the respect e S te l ll be re t a n d fr m i npo such im posts n l l t f gner a the r own people are sub jecte l t f m pr l l t g the expo t t on or mportation of an pe l goods r con n d t l atsoe e —of estab l shing ul f d l g ll e h t aptures on land or water h ll t l g l n l n h t m n r f zes taken by land or n l f l e cr e f tle U te l St tes h ll be d l d r f P F t d— f gr nt g letters of marque and ep l t n e f pe f p t n u t for the trial of p ra d f l n nm t d n th l gl eas nd estab l h n ts f e e g l det m n n finally appeals in all case f f t p ded tha no memb r of Congress sh ll be H t d j dg f n of the s d urts

S es n Co gress as embled hall also be the nces now sub or more States ier cause what concern ng bound ry j

that shall be incurred for the common d fence or general wel fare and allowed by the United States in Congress assembled, shall be defra ed out of a comm n treasury which shall be suppl ed by the e eral States n pr portion to the va ue of all land w th n each State gra t d to or surveyed for any person as ch l nd nd th bu ld ngs and imp o em nts thereon shall be est m ted cc I ng to uch mode as the United St t s n C n r s asse bled l all f m tim to time d rect nd ppo nt

The t f] a ng t t pr port n l all be la l d lev ed by th a th r t l u rect n f the Le tures of th sever l State l n d t m greed upon b th United States n C c a mbl d

ARTIC IX Th U t l St tes n C ngress assembled sh ll h the sole d ex l e r t l power of d ter minin n p e l x t n the c ses m ntioned in the th t l – f l g d re e n nbass d rs—enter ing nto e t l ll [r d th t treaty of comm ce t l be l wl b the l g l t e p wer of the respect S t h ll be t a nc l f mp si such im po ts n l t n f r r rs he n peopl are sub jected t f l l th exp t o importation of n pe f good m d t s wh tsoever—of estab lish ng l f l c l ll se wl t captu es on l nd or wat ll b l l nd n h t u n l c t ken by land r n l f tl r f the U t l St tes hall be d id a [[r [d— f or nu letters of m rque and rep n l n f [ppo nt g u ts fo the trial of p l l l nm t l n th H gh se and estab l h n t f g n l d t m n ng finally appeals in all case f pl es f ded that n membe f Congress sh ll be l p ted j dge f a f the d c u ts

Th U t d S es n C ngress ssembled hall also be the l t reso t n ppe l n ll d p tes and d ffe ences now sub s t n or th t he e fter m y arise between two or mo e States co cernin bo ndary jur d t on or ny other cause what

jud es of the supreme or superior co rt of the State where the cause shall be tried well and tr ily to hear and determine the matter in quest on accor l n to the best of l jı d ment w thout fa our aff t on r l pc f re rd pr ıde l also that n St te sh ll be d ſ d f te rit n f r tl e benefit of the Ln ted St tes

All contr e c ern n tl e ſr te ri ht of soil cl med u der l ffer t gr nts f tw or n re States whose jurısd t tl n spe t u h l nd an l tl e States wh ch p d h g a dj st d tl e a l grants or e tl er f l n l g at tl e ne t cl m l t h e orig inated nt e lent t h se tle ient f ju t n hall on the pet l tl e l t t th C re f the Ln ted State b fi ll d t d n a be n the same man er b t re p b d f l l n l ſ tes respect ing terr l ju d n bet e d ff r ı t St t

The l t l S e n C ng ml l d l ll lso l ve the sole nd lu r l t n l power f l ng tl e alloy and l f ɔ ru k F th r w tl t or b tl at of the r pc St h g tl e t l d f e hts ar l meas tre l h tl e L ed St t — egul n tl e tr de and m n ll ff l tl e l l n t ı mbe f anv of th St t ſ l d l t the l l t e r l t f ı State tl ı t b n t f g d r l t d—e t bl sl n l ſ l t g l t-offi f n one S ate t n ther thr ugh t ll l l t St d t n l po ta e n th p f l l th c be q ite t lef) l pc f tl e d ffi — ſ pc nt ng ll off cers f h l n l f h f tl Ln d St tes except ing g m ntal ff — ſpo t g ll h ff er f the naval f d n n g ll ffi e whate c n the ervice f h l d St —n k ng ul f th go rnment and egul n f h d l d nd na l f rces and directing the pe

Tl e Ln d S t n C res en bled sh ll h e author t to appo nt a mn t e t t n the eces of Congress to be de ı minated Comm ttee of the States and to cons st

time of peace nor enter into any treaties or alliances nor coin money nor regulate the alue thereof nor ascertain the sums and expenses necessary f r the defence and welfare of the U ited States or any of them nor emit b lls nor borrow m ney on the credit of the Un ted States nor appropriate money nor ree upon tl e ber of essels of ar to be built or pu h e l or tl e umber of la d or sea forces to be ra sed no ap poi t a omm nd n ch ef of the army or navy unless n St tes ssent to tl e ame or h ll a question on any otl l nt exc pt f r lj urn ng from day to day be det m ned u l t tl te of majority of the United State n C gres a se nbled

The Congr f the U ted State l ll l e power to ad journ t a t me ith tl e e r n l t a pl ce within the Un t d St t w th t no pe l f a lj rn m nt be for a longer du atı n tl n th p ce of x n o tl t hall publ h the j u n l f tl e l d ngs n nth y ex ept such part tl e f el t g t t ll n s o m l tary opera tions as n tl j dgm l r ecr y and tl e yeas and nays of l d l g te f h S t quest on sh ll be entered n l j l l n t d re l b v delegate and th u l t l St t r n of l en at his or their request l ll t u l l w th sc j t f tl e said jour nal ex j t u l j b j ted to l y before the Leg l tu l tl r l St t

A T C X Tl c m tt f tl States or any nine of them h ll t tl l t x ut th re e of Congress such f th l s f C ngr as tl e Un ted States in Con gre m t l l b l se t f n St te l all from t me to t me th k l l h l mm ttee f r the exerc se of pow r be leg l f cnfed r t on the o ce of nine wh ch b l States n l C ng s f tl e Un ted States assembled requ s te

ARTI LE XI C n d cced ng to this confederat on and jo n ng n the m su es of the Un ted States shall be ad

time of peace nor enter into any treaties or all ances nor co n m ney nor regulate the alue thereof nor ascertain the sums d expenses necessary for the defence and welfare of the U ited St tes or any of them r em t bills nor borrow money on the credit of th U ted St tes nor appropriate money nor a upon th n ber f e sels of war to be built or pu h l or the r ber l la d or sea for es to be raised n appo t a mm n h f of the army or navy unless St tes sse t to th n or sh ll a question on tl I nt c f r lj urn f om day to day be det n d l b tl t f jority of the United States Congre a en t l l

The C ngr f the U ted St tes hall l e p wer to adjourn t a t me tl t tl r a l t l e within the U ted St s tl at n pe l f l nt be for a l n er l r t n tl n tl I f n nd n l t ll publ h the jou n l f the l c l ng n nd xcept such p rts the f l t t t l r m l t r opera tons t tl j d n t l c d tl as and nays f l l l t l S qu t n h ll be entered l l l t de d l n d legite a d the l f S f the t l r their request l ll l l l l t r p t f the said jour n l e pts l t l e p l t t l before the Le l f tl l St t

ARTICLE X Tl te f tl St tes r any nine of them sh ll be l d tl of Congress uch f th p f C ngr z tl U t d St t s in Con gress se bl l t t e t f n e St t s l ll f om t me to t m th k xd t t tl w th p de l th t no powe be del t l t l l tt f the xercise of which b tl f c fed t n the ce f nine St tes tl C f the Un ted States a sen bl d is requ t

ARTICLE XI Can d ed n to th confederat on and l in ng in th m as es of th Un ted States sh ll be ad

In witness whereof we have hereunto set our hands in Congress. Done at Philadelphia in the State of Pennsylvania the ninth day of July in the year of our Lord one thousand seven hundred and seventy-eight, and in the third year of the independence of America.

On the part & behalf of the State of New Hampshire

JOSIAH BARTLETT
JOHN WENTWORTH Junr
August 8th 1778

On the part and behalf of the State of Massachusetts Bay

JOHN HANCOCK
SAMUEL ADAMS
ELBRIDGE GERRY
FRANCIS DANA
JAMES LOVELL
SAMUEL HOLTEN

On the part and behalf of the State of Rhode Island and Providence Plantations

WILLIAM ELLERY
HENRY MARCHANT
JOHN COLLINS

On the part and behalf of the State of Connecticut

ROGER SHERMAN
SAMUEL HUNTINGTON
OLIVER WOLCOTT
TITUS HOSMER
ANDREW ADAMS

On the part and behalf of the State of New York

JAS DUANE
FRA. LEWIS
GOUV MORRIS
WM DUER

On the part and in behalf of the State of New Jersey
Novr 26 1778

JNO WITHERSPOON
NATHL. SCUDDER

On the part and behalf of the State of Pennsylvania

ROBT MORRIS
DANIEL ROBERDEAU
JNO BAYARD SMITH
WILLIAM CLINGAN
JOSEPH REED 22d July 1778

In witness whereof we have hereunto set our hands in Congress. Done at Philadelphia in the State of Pennsylvania the ninth day of July in the year of our Lord one thousand seven hundred and seventy-eight and in the third year of the independence of America.

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JOSEPH REED 22d July
1778

THE BASIC DOCUMENTS

II

THE CONSTITUTION IN THE MAKING

RESOLUTION OF CONGRESS

[*Feb uary 1 1 8/*]

WHEREAS THERE IS PROVISION n the Art cles of Confedera t n & pe pet al Union for mak alter tions therein by tl e Asse t of C nrres f the U i d St tes nd f the leg islatures f the ral States Ar l here exper ence hatl ev nce l tl t h e def ts n the present Confederation as a mean to medy l ch e er l f th States and p rticularly the Stat of N York l expres n t t n t the r delegates in Conrre l e u e ted e t n f r the purposes ex pressed n the foll ng re ol t i and u l Con ention ap pear ng t f th n t pr b t le n f est t li l ing in these states f m n t l g n nt

Resol d tl t tl e p n f C ngre t s expedient that on the nd M nd M y t C ention f delegates who h ll l t ppc t l l tl e e e l states be held at Ph l d lph f r h le n l p e l pose f revising tl e Ar le t C f l t d repc t t Congress and the e r l l l u h l ti n nd p r ons therein as h ll l n g ed t n C gi nd nfirm d b tl e tates end tl fc l r l t d quate t tl e ex encies of Go ern i nt & tl l es t f th Union

RESOLUTION OF CONGRESS

[*February 21 1787*]

WHEREAS THERE IS PROVISION in the Articles of Confederation & perpetual Union for making alterations therein by the Assent of a Congress of the United States and of the legislatures of the several States And whereas experience hath evinced that there are defects in the present Confederation as a means to remedy which several of the States and particularly the State of New York by express instruction to their delegates in Congress have suggested a convention for the purposes expressed in the following resolution and such Convention appearing to be the most probable means of establishing in these states a firm national government

Resolved that in the opinion of Congress it is expedient that on the second Monday in May next a Convention of delegates who shall have been appointed by the several states be held at Philadelphia for the sole and express purpose of revising the Articles of Confederation and reporting to Congress and the several legislatures such alterations and provisions therein as shall when agreed to in Congress and confirmed by the states render the federal constitution adequate to the exigencies of Government & the preservation of the Union

THE VIRGINIA PLAN AS OFFERED BY RANDOLPH

[May 29 1787]

1. RESOLVED That the articles of Confederation ought to be so corrected and enlarged as to accomplish the objects proposed by their institution namely common defence security of liberty and general welfare

2 RESOLVED therefore That the rights of suffrage in the National Legislature ought to be proportioned to the Quotas of contribution or to the number of free inhabitants as the one or the other rule may seem best in different cases

3 RESOLVED That the National Legislature ought to consist of two branches

4 RESOLVED That the members of the first branch of the National Legislature ought to be elected by the people of the several States every   for the term of   to be of the age of   years at least to receive liberal stipends by which they may be compensated for the devotion of their time to public service to be ineligible to any office established by a particular State or under the authority of the United States except those peculiarly belonging to the functions of the first branch during the term of service and for the space of   after its expiration to be incapable of re-election for the space of   after the expiration of their term of service and to be subject to recall

5 RESOLVED That the members of the second branch of the National Legislature ought to be elected by those of the first out of a proper number of persons nominated by the individual Legislatures to be of the age of   years at least to hold their offices for a term sufficient to ensure their independency to receive liberal stipends by which they may be compensated for the devotion of their time to public service and to be ineligible to any office established by a particular State or under the authority of the United States except those pe-

cularly belonging to the functions of the second branch during the term of service and for the space of after the expiration thereof

6 RESOL ED That each branch ought to possess the r ght of ori inat ng Acts that the N t onal Le latura ought to be impo vered to enjo the Legislat R ghts ested in Congress by the Confed rat n and moreo e to legisl te in all cases to which the s p rate States are ncompetent or in which the h rmony of tl U ted States may be interrupted by the exer cise of ind d l Legislat on to negat e all laws passed by the se e al States ntra enin in the oj nion of the Na t nal Le l tu e the a t les of Un on and to call forth the force of tl Un n a n t any member f the Un on failing to fulf l t lutv nd r the art cles thereof

7 RE D Tl t a nat n l execut e be nst tuted to be chosen b tl N t nal Le l tu e f r the t rm of years to rec e p lls at st ted time f xed compensation for the serv le d n wh ch n ncrease r dim nution shall be mad o t ff t the Magistr cy exi ting t the time of ncrea e r r t n nd to be el g ble a se nd time a l th t b l ge l a thority to ecute the National l s t l l the Ex ut e r hts ested i Congress by the C l l t n

8 RE F Il t tl x ut e and on en ent number f the N nal Jul n o ht t mpose a council of re is n w tl l r t t x m n ry t of the National Le l t l l ll pe e nd e ery act of a particu la Le l u b f Neg t e th reon h ll be final and th t tl n l l d C uncil shall amount t a rejec tion u l F f th Nat n l Leg l ur be aga n passed o th t f l l Leg l ture be g n negati ed by of tl e n l r f l l nd

9 R T t n l j d c r be established to con s of me tr l unal and of nferior t ibunals to be h se l N n nal Leg sl ture t hold the r offices du g g l bch ur nd to re e e punctually at stated t mes fixed co npens t ns for the serv ces in which no in

THE VIRGINIA PLAN AS REPORTED BY THE COMMITTEE OF THE WHOLE[1]

[June 13 1 8]

1. RESOL ED That it the P on of th s Committee that a nat 1 l o mm nt ougl t to be e tablished consisting of a Supreme Legi lati Jud ry nd Executi e

RESOL ED Th t tl N t o l L g lature ought to consist of T o B he

3 RE L Th t th Mcn ber f the fr t l ranch of the national Leg l tu e ught to be elected by th People of the se eral Stat f r tl t r n f Three yea s to rece e fxed stipend by l h th n a be o pensated fo the devotion of the r t e t publ c ser t be p d out ot the National Tre su t b l g l l t ny Offi e estab i h d by a par t cul St te r un l r the a thor t f the Un t d States (ex cept th se pec l l bel nging to the f n t o f the first branch) d r g the t n f se ce and unde the nat onal g er n t l te } f ne a aft ts xpirat on

4 RE Il t l M n l e f the se l Branch of the n t n l L l t l t t be h sen b the nd idual Leg i l tu t l t tl f l t y r t l t t h ld the r ure the ndependency ffce f t fh nt t f x d st p nd b which they na l t e t d i tle de ot n of tl e t e to publ c ma b T t d i f tle N t o l T e) to be in se e t L l l t l l hed by pa t l r S te or under el g bl t) Off l St tes (ex pt th e pecul arly be tl th t f l L f tle e l b l) du i g the term l h t l f l r l n t nal c nment f r the space f l N t n of nc) f l t to pos s the ri ht of

RE L I Tl t e h l r i l g n nc t

Th f ll F rrand P ds f th F deral C t 1 rr g d by Carl V De h Th C t R h al l t sed h perm ss f th p bl hers, Th V k P ess.

to hold their offices during good behaviour to receive punc
- tually t stated times a fixed compensation for their services
in wh l no ncrease or d minut on shall be made so as to
affec tl e per n tuall in ff c at the time of such increase
or liminution
1 RESOL E Th t the nat n l Legi lature be empowered
to appoint f Tr l unal
13 RESOL D Th t the ju d t r f he nat onal Judiciary
shall exte d t l l pe t the oll ction of the na
tional re f a l t ol Nat onal fficers and
question l h l e tl i i l pe e nd harmony
11 RESO LD Th t l o l t t be made for the ad
miss o f St t l full r in w h n the l mits of the
Un ted St t l tl r l n l t r jut tion of go ern
ment and t th tl tl c nsent of a num
ber of u N t n l l g l r l s than the whole
15 RES L D Il l ught t l n le for the con
tinuan f C ngr l l tl t es ut t l given day
afte tl e f n l h t l f L sh ll be adopted and
for the l t f ll l n nt
16 RE l Th t ef bl C n t tut n and its exist
ng l h l u nte d t a h St t by the United
Sta l t gl t t be n de f r the
l R C l Tl t p hensoe r t shall seem
an t d t t les f L n
n es n l RESL t Il t tl c Le l t e Ex cut e and Judiciary
powe l tl c al St tes u l t to be bound by oath to
upp t tl t l f L o
19 R t Tl l n nd ents h l sh ll be offered
t l l l tl C n nt o o l t at a proper
t ne o l tl ff ob n f Congress to be sub
m e l t l r sc bl es of represent ti es rec
om m n l l l r l Le l es to l e ubm tted to an
assen bl nbl s f rep esent t es recomn nded by the
l L g l es to be expressly chosen by the People to
con d r and d cide thereon

authorized to make such requisitions in proportion to the whole number of white and other free citizens and inhabitants of every age sex and condition including those bound to servitude for a term of years and three fifths of all other persons not comprehended in the foregoing description except Indians not paying taxes that if such requisitions be not complied with in the time specified therein to direct the collection thereof in the non-complying States and for that purpose to devise and pass acts directing and authorizing the same provided that none of the powers hereby vested in the United States in Congress shall be exercised without the consent of at least   States and in that proportion if the number of confederated States should hereafter be increased or diminished

4 RESOLVED That the United States in Congress be authorized to elect a federal Executive to consist of   persons to continue in office for the term of   years to receive punctually at stated times a fixed compensation for their services in which no increase or diminution shall be made so as to affect the persons composing the Executive at the time of such increase or diminution to be paid out of the federal treasury to be incapable of holding any other office or appointment during their term of service and for   years thereafter to be ineligible a second time and removable by Congress on application by a majority of the Executives of the several States That the executive besides their general authority to execute the federal acts ought to appoint all federal officers not otherwise provided for and to direct all military operations provided that none of the persons composing the federal executive shall on any occasion take command of any troops so as personally to conduct any military enterprise as General or in any other capacity

5 RESOLVED That a federal Judiciary be established, to consist of a supreme Tribunal the Judges of which to be appointed by the Executive and to hold their offices during good behaviour to receive punctually at stated times a fixed compensation for their services in which no increase or diminu

authorized to make such requ sitions in proportion to the whole number of white and other free citizens an l inhabitants of every age sex, and condition includin, those bound to serv tude for a term of years, and three f fths of all other per sons not comprehended in the foregoing description except Indians not payin, taxes tl at if su h requis ti ns be not com plied with in the time specified therein to direct the collec tion thereof in the non-compl ing States and for that pur pose to devise and pass acts d rect n and uthorizing the same pro ded that no e of the powers her by ested in the United States in Congress shall be exe sed w tl out the con sent of at least States and in that prop rt on if the number of confederated States should hereafter be increased or diminished.

4 RESOLVED That the Un ted States n Congress be author ized to elect a federal Executi e t c n i t of persons to continue in office f r the term of ear to receive punc tually at stated times fi ed c mpen t on f r their services in wh ch no ncrease or dim nut on l all be made so as to affect the persons compos the E ecuti e at the t me of such increase d m ut on to be p d ut of the f deral treasu ry to be incap b e of holding an ther ffice or appointment du g their term of serv ce nd f r years ther after to be inel gible a second time and em able by C ngress on ap pl cat n by a m jority of the E cut s of th se eral States. That the execut e bes des their general auth r t to execute the federal acts ght to ppo t all f de al offic r not other wise p ov ded f nd to direct all mil tary per t ons pro vided that on of th person c mpos n the fede l execu tive sh ll o an oc n take c mm nd f ny t oops so as perso tally to co d t y m l tary enterp e a General or n any other capacity

5 RESOLVED That fed ral Jud ci ry be est l l shed to consist f a upreme Tr bunal the Judge of wh ch to be ap poi ted by the Executi e nd to h ld tl e offices during good beha i ur to recei e punctuall t stated times a fixed com pensation for their services in which no ncrease or d minu

THE BASIC DOCUMENTS

III

THE CONSTITUTION

A BRIEF SUMMARY

Althougl m st of the pr ncip l pro ns of the Consti tution ha e b en touched n n the introductory essay it may be u eful t th s po nt to set down a br ef systemat c analysis of the locu ent t serv the purposes of both sum mary and cl f cat

I GENERAL PRINCIPLES OF THE CONSTITUTION

I Tl t f the L The An erican nation ha bee l t f c l pl r e qu ted elsewh r n these pag s e t ucul l L n c mposed of inde struct l le S t nd tl pe petu l ch cter of the con t t t l rr g n nt ha been re ogn zed both in l nd f t th C l W r d n the l n before that Th ctu l n n f r th de cr pt n are com p rat el n r f n t l be n a g ed that the Article f (t l t n c e decl ed t be perpetual and th t th l e tl h C n t tut n de l res th t the obje t t l n r pe f t Un l ence the per pet ty f th l t Un n ne t bl mplied For ano he tl n l gu t th t ltho gh the Consti tut n l l m l l l h l t tes adm tted to tle Un l l IV Se t 3) t ets up no ma ch n ry f l d re g z s n ch pos s b l t l d l g l be en ded (Art cle V) Pr t l l r f m lm nt ght ratify a st te ch t l h Un n (lth ugh theoretical lissent tl n t be n d) but otherw se the n t t l l t t l n l luble arrange ment In n tl w l f the C t tut n aside the Ci l W t l d th que t n of des ruct b l ty on a d f t b l r lv n h n x ept war or the amend h t A f r the amend ng power

of state trad regulations are forbidden because they in vade the dormant commerce pov er of Congress and that the states may not directly tax an instrumentality of the federal go ernment (a prohibition which has also been appl ed in reverse so as to restrict the national govern ment in taxing the states) Neither of these legal con cepts is expressed in any specific clause of the Constitu tion they a e sa d to arise from the nature of the federal system itself

4 *Interstate Relations* The prov s ons in Article IV Sections 1 and 2 relat ng to this subject are survivals of the interstate com ty provisions of the Art cl s of Con federat on Other pro ions are the interstate compact clause of Article I Sect on 10 Paragraph 3 whose pos ib lities as a so irce of inte state cooperation are only re cently be n real ed and the arran ement n Article III Section wh ch gi es the federal judic ry jurisdiction over interstate d putes F nally the commerce clause has been held to p e ent the tates f om erect ng commercial barr ers against the r nei hbors so as to favor their own c tizens at the expense of the rest of the nat on

5 *Elect ns* The power t prescr be ot ng qualifica tions was left in the 6 n l Const tution to the several states though th some qu l f cations and subsequent amendm nt h e extended these qual f cat ons much furthe A t cle I Sect n pro ides that those wl o vote for Rep sent t must ha e the qualif cati ns of those who ote for the m t nume u b anch of the state legisl tu e and th Se enteenth Amendment prescribes the sam qual fic t on for those ho elect Senators The states ar also forb dden to deny the s ffrage on the ground of r ce o olor (Amendment F fteen) and on the ground of sex (Am ndment Nineteen) The right to cast ote fo feder l fficers n accordan e w th alid state regul tions can be pr tected by Congressional legislation As for le tion to the pres dency the states are left free to prescribe qual fi ation to ote for the Electoral College (ubje t of co rse to Amendments Fifteen and N neteen) and t was originally assumed that the Electors so chosen wo ld m ke a free cho ce But in practice the Electors

existence s inferred from the nature of the legislative function and the power to control the appellate jurisdic tion of the Supreme Court (Article III Section) The upsh t of this impressi e array of authority—and the list could be extended substantially—is that the Congress is endo ed w th the full range of powers generally expected of a so ereign nat n and that onstitut onally speaking it stands fo th as the dom nant branch of the federal tri um irate

2 *The P ers f the P esident* The Constitution makes the P s dent an extremel pc t nt executive Ar ticle I Sect n spec f cally make him commander in chief of the t n rmed for e grants him broad con trol o er the f re gn p l cy of the U n ted States through the t e ty mak ng power and authority e the admin istr t e a e cie of g rnment th h the power of appo tme t nd emo al It is true that the Senate pa t cip te n both th t e ty m k n an l p po ntment pro and that bod b n me n negl g ble But the Pres dent n h natu e of the case h lds the n tiati e and th n n th t he s u u ll the dom n nt partner w th re pe t t the fu t o The d t ngu shing char acter t f the p j t c st tut n l author ty how e t u n His a l r t n m nder n-chief and h l t t t ke are that the l s be fa thfully ex ecuted (A t l II Se t 3 III) are both l d to define and s t t h e m d much f the r More er t h d l g l th t the Pest w l f the ex ecut e p t l n w th gen ral thor ts to per f rm the t II I t t th t funct n quite apart f m a xp l t t t n l o c ngres i n l m ndate At all en t l th t he s n po e f il f gure H l t l t the C ngres p bably depends not n h p tl C t t t n as upon the facts of pol t cal l l S t m

The I l I The al ent fa t about the j d l p are t the autho t to re ew the acts l j l l d n f the st t s wh ch is supposedly d d fron th p m cl use and from the impl cat on of A t l III and the auth ty to re e v acts of

them as reasonably justified by some public danger Amendments Four throu h Ei ht protect certain procedural ri hts of the individual—generally speaking the right to be free from arbitrary treatment by police officers and the right to a fair trial Amendments Thirteen through Fifteen are the so-called Civil War Amendments passed after that confl ct largely to ensure the newly freed Negro his civil rights From the point of iew of l tigation the Fourteenth has been by far the most important For some seventy years after its passage in 1868 the due process clause of that Amendment was interpreted chiefly as a protection for property holders but today it is construed to restrict the states in somewhat the same way that the first e ght Amendments limit the national go ernment

LETTER OF THE CONVENTION TO CONGRESS

In Convention September 17 1787

SIR WE HAVE NOW THE HONOR to submit to the consideration of the Un ted States in Congress assembled that Constitution which has appeared to us the most ad isable

The friends of our country ha e lon seen and desired that tl e po er of making war peace and treaties of levying money and regulating commerce and the correspondent exec utı e and jud cial authorities should be fully and effectually vested in the general go ernment of the Union but the im propriety of delegating such extensi e trust to one body of men s ev dent— Hence results the necessity of a different or gan zation

It s ob ou ly impra t cable in the federal government of these States to ecure all r ghts of independent so ereignty to eacl and yet pros d for the interest and safety of all— Ind du ls ntering nto society must give up a share of l berty to preserve the rest The magnitude of the sacrifice mu t depend a ell on s tuation and circumstances as on the object to be obta ned It s t all t mes d ff cult to draw with p ec n the l ne between tl ose r ghts which mu t be sur rendered and tl ose h h may be reserved and on the pres ent occas n tl is d ffic lty was ncreased by a difference among tl e several States to their situation extent habits and par t lar nterests.

In ll our d l ber t ons on th s subj ct we kept steadily in our e that wh ch appears to us the greatest interest of e ery tru Amer can the consol dation of our Union in h ch n ol ed our p osper ty fel city safety perhaps our n tion l existence Th s important c nsideration seriously and deeply impressed on our minds led each State in the

RESOLUTION OF THE CONVENTION

[Septembe I 1 8]

In Convent o Mc da Septe le I 1l 1 8

PRESENT The States f N Ha psl M sa l usetts Connect cut M H lt 1 Ne Y k N Jersey Pennsylan a Dela a M r l I I N ll Ca l a South Carol na nd Ge

Resolved That the Cor tut be l d bef r the Un ted States in Congress en bl l d h t t tl l t f th s con ention that it h ld aft r be l t l t a cor vention of delegates chos n l St t l the pe ple thereof under th r n me d n f t l g l t e f r their assent and t ficau n d th e t n nt se ttr g to and ratify ng the am h ld g e t tle e f to the Un ted States n C gre assen ble l e t n that as

Resol d Tha t th I n f tl c t fed tl is soon a th n t ns f n S t l ll h w l lel l ld constit t tl Un t d St e n C h uld be l po t l l tl e St t ix a day wh h l t t f d the m d d wh cl the wh ch h ll l lectors sh uld e bl o te f th Pr l t nd the ame nd pl e f n nen ng proc d ~ l th Con it tution th t ft l pull t n th le t h uld be appointed nd h t rs d rep sc t t l ted tl at he elect rs l ould c t n th d f xed f l ele t n of h Pres d nt nd h ld t n m t tl t r f ed gned ealed nd d t d a tl Con t tu n re qu t the sec retary of th U ed S e n Congress seml l d th t the enat rs nd P e t es h ld n e t the time nd lace m d th t th en tors h uld ppo nt a p es dent f th Sen e f r the sol pu pose f re t ng pen ng and ount n tl otes for P es d nt and that after he shall be

RESOLUTION OF THE CONVENTION

[Septe ber 1 1 8]

In Convent o i Mo da Septe iber I tl 1 8,

PRESENT *The State f New H n psl e Massacl usetts Connecticut M Ha lt f n New Y k Ne Jersey Pennsyl ania Dela are M ryla d l b No tl Carolina South Carolina and G rgi*

Resolved That the Con t tut on be l d before the Un ted States in Congress embl d nd that t tl op i n of this con enuon that t h uld fterwa d be ul n tted to a con vention of delegates ho i n e h St te l y the people thereof under th r n me d t on of t leg l tu e f tl eir assent and r t ficat on a d that e h n nt on assenting to and rauf ng th me l uld gi e n t e thereof to the United States n Co gr as en bled

Resol ed Th t the op n n f th n ent n that as soon as th on t s f n St te h ll ha e r t f ed this onstitut on th U t d St e Congre embled should ax a d y n h h elect rs hould be ppointed by tl e States hich shall l r t f d the ne nd d y o i wh cl the lectors hould ss n bl t ot f the Pre l nt and the time a d pla f r n ne p oc ed gs under th Con stitutu n that fter u h publ c t on th le tor h uld be appo nted nd the ato nd ep e ent elected that he electors h uld n t th d y fix d for tl e lect n of he Pres d nt d l uld tr n n t the r otes ert f ed signed ealed and d r t d h Con t tut n requ es to the sec etary of the Un d St t s n Congress a sembled that the en t nd r l sen t es hould c n ene t the time and l e a gn d h t th sen to should appoint a president f the Sen e f th sole purpose of ecei ing opening and ount n th otes fo Pres dent and th t after he shall be

chosen the Congress together with the President without delay proceed to execute this Constitution

By the unanimous order of the convention

GEORGE WASHINGTON *President*

WILLIAM JACKSON *Secretary*

THE CONSTITUTION OF THE UNITED STATES

WE THE PEOPLE OF THE UNITED STATES IN ORDER TO FOR(A MORE PERFECT UNION ESTABLISH JUSTICE, INSURE DOMESTIC TRANQUILITY PROVIDE FOR THE CO (MON DEFENCE, PROMOTE THE GENERAL WELFARE, AND SECURE THE BLESSINGS OF LIBERTY TO OURSELVES AND OUR POSTERITY DO ORDAIN AND ESTABLISH THIS CONSTITUTION FOR THE UNITED STATES OF A IERICA.

ARTICLE I

SECTION 1 All legisl ti e P wers herein granted shall be ested in a Congress of the United States which shall consist of a Senate and House of Representatives

SECTION (1) The House of Representatives shall be c mposed of Members h sen every second Year by the People ... Electors in each State shall ha e

Branch of the Stat ... e

( ) No person hall be a Representative who sl al ... nd been seven Years atta ned to the Age of Twenty f e years and who shall not when a Citizen of tl e United States and who shall not when elected be n inh b tant of that State in which he sh ll be chosen

(3) Representati es and direct Taxes shall be apportioned among the se e al State which may be included within th s Unio accord ng to the respecti e Numbers which shall be determined by add ng to the whole Number of free Persons includ n those bound to Serv ce for a Term of Years and ex clud n Ind an not t xed th ee fifths of all other Persons The act al Enumeration shall be made within three Years after the first Meet ng of the Congress of the United States and within every ubsequent Term of ten Years in such Man

chosen the Congress together with the President should without delay proceed to execute this Constitution.

By the unanimous order of the convention

GEORGE WASHINGTON *President*

WILLIAM JACKSON *Secretary*

(5) The Senate shall chuse their other Officers and also a President pro tempore in the Absence of the Vice President, or when he shall exercise the Office of President of the United States

(6) The Senate hall have the sole Power to try all Impeachments When sitting for that Purpose they shall be on Oath or Affirmation When the Pres dent of the United States is tried the Ch ef Justice shall pres de And no Person shall be convicted ıtl out the Concurrence of tı o thirds of the Members present.

(7) Judgment in Cases of Impeachment shall not extend further than to remo al from Office and disqualification to hold and enjoy any Office of honor Trust or Profit under the United States but the Party convicted shall nevertheless be liable and subject to Indictment Trial Judgment and Punı hment according to Law

SECTION 4 (1) The Times Places and Manner of holding Elections f r Sen tors and Representatives shall be prescribed in each State by the Legı lature thereof but the Congress may at any time by La make or alter such Regulations except as to the Place of cl u ın Senators

(2) The Congress sh ll assemble at least once in every Year and such Meeting shall be on the fi st Monday n December unless they shall by Law appoint a different Day

SECTION (1) Each House shall be the Judge of the Elect ns Returns and Qual fications of its own Members and a Major ty of e ch shall constitute a Quorum to do Business but a smaller Number may adjourn from day to day and may be auth rized to ompel the Attendance of absent Members in such Mann r and under such Penalties as each House may pro ide

(?) Each House m y determine the Rules of its Proceed ngs puni h t Members for d sorderly Behavior and with the Concurrence of two thirds expel Member

(3) Each House shall keep a Journal of its Proceedings and from t me to t me publ sh the same excepting such Parts as may in their Judgment require Secrecy and the Yeas and

the Votes of both Hou es shall be determined by Yeas and Nays and the Names of the Persons votin for and against the Bill shall be entered on the Journal of each House respec n ely If any Bill shall not be returned by the President ith n ten Da s (Sundays excepted) after it shall ha e been presented to h m the Same sl all be a l w n l ke Manner as if he had s gned t unless the Congress by the r Adjournment pre ent its Ret rn in h ch Ca e t hall not be a Law

( ) Every Order Resolut on r Vote to l h the Concur rence of the S nate d H use of Rep esentat es may be nec essary (except on a quest on of A Jjour ment) h ll be pre sented to the Pre id nt f the Un ted St tes n l before the Same shall take Effect h ll be a l o l by hi n or being disappr ed b h m h ll be ep se l b t thirds of the Senate and H use f Repr ent t cc l to the Rules and L m tat on p es bed n the C f B ll

SECTION 8 (1 Th C r ss sl ll l e I To lay and collect T x D t e Impo t d E se t la the Debts and pro de fo th c n n D f n e and g ne al Welfare of the Un t d St te b t ll Dut Impo t nd Exc se shall be uniform th o gl out the Un ed St te

(2) To b ne on th C e l t f the Un t d States

(3) To m l t C n ner tl f re n N t ns and among the l St tes n l w th th In l an Tr bes

(4) T e t l l l n un f rm R le f N t r l z tion and un form L w the subjec of B nk upt es thr ughout the Un ted St te

( ) To M e egul te tl e V lu th eof an l of for eign Co n nd t fix th St n l rd of We ghts nd Measures

(6) To p d l th Pun hm nt of counterfe t ng the Se urities nd u nt C n f tl e U ted St tes

(7) T tabl h Post Office an l post R d

(8) To p on te tl e Pr gres of S n e and useful Arts by secur n f l n t d Times t Auth rs nd In entors the ex clus e R l t t tl e respect e W t ngs and Disco eries

(9) To onst tute Tr bunal infer r to the Supreme Court

(10) To define and Punish Piracies and Felonies committed

be suspended unless when in Cases of Rebellion or Invasion the public Safety may require it

(3) No Bill of Attainder or ex post facto Law shall be passed

(4) No Capitation or other direct tax shall be laid unless in Proportion to the Census or Enumeration herein before directed to be taken.

(5) No Tax or Dut shall be laid on Articles exported from any State

(6) No preference h ll be gi en by an Reg lat on of Commerce or Re enue to the P rt of o e St te r those of another nor hall Vessel l und t or fro n ne State be obliged to enter clear r p y Dut e n another

(7) No Money sh ll be l awn fro th T e r but in Consequence of Approp iat mad by L w a d a regular Statement and Accou t f the Re e pt and Expen d tures of all public Mone hall be publ l ed from t e to t me

(8) No Title of N b l t l ll e gr ted b the United States And n Per on l old a Offi e of Pr f t or Trust under them sh ll ut the C ent f the Congress accept of any present Emol e t Off e T tle of any kind whate er from ny K g P e r f rn St te

SECTION 10 (1) N St t l all e t r into an T eaty Alliance or Confe l t n grant L tte f Ma que and Reprisal c n Mo e m t B ll f Cr d t m ke any Th ng but gold and s l C a T nle P ncit of Debts pass any B ll of Atta nd ex po t fa to La Law mpairing the Obligati n of C n r t o gra t y T tle of N b lity

(2) No Stat sh ll w h ut the Con ent of th Congress lay any Impo ts or Dut es on In p rts o Expo ts except what may be absolut l necessa fo x ut ng t in pect on Laws and the n t P odu e of ll Dut nd Impo t l d by any State on In po ts Expo ts h ll be fo the U e of the Treasury of th U ed St es d ll u h Law sh ll be subject to th R n nd nt ul of th C ngress

(3) No S te l ll th ut th Consent of Congress lay ny Duty of T n ge keep T oops or Sh ps of War in time of Peace e ter nto any Agre ment or Comp ct with another

be suspended unless hen in Cases of Rebellion or Invasion the public Safety may require it.

(3) No Bill of Atta nder or ex post facto Law shall l e passed

(4) No Capitation or other direct tax shall be laid unless in Proportion to the Census or E umeration herein before directed to be taken.

(5) No Tax or Dut shall l e laid on Articles exported from any State

(6) No preference shall l e gi en by any Pegulation of Com merce or Re enue to tl e Ports of o e State r th se of an other nor shall Vessels bound to or fr 1 1 one State be obliged to enter clear or pa Dut es n another

() No Money h ll be l a n fron tl e Tre ry but in Consequence of Appropri t s mad b Law ai d a regular Statement and Account of th Re e pt an l Expenditures of all public Mone shall be pul l hed f om t e to time

(8) No Title of Nob l t l ll be grant l by the United States And no P i l ld Off e of Prof t or Trust under them sh ll tho t tl e C n ent of tl e Congress ac cept of any prese t Emolun ent Off T tle of any k nd wh te er f o n n K n Pr e r f r gn St te

SECTION 10 (1) No St c l ll t r n o an Treaty Al liance r Confed u n gr nt L tte f Ma que and Re prisal coin Mon 1 t B ll f C r d t make ny Th ng but gold and l Co n a Te l r Pa m nt of Debts pass any B ll of Att nder ex po t f L or Law mpair ng the Obl gati n of C tr ct or grant n T l f Nob l ty

( ) No Stat h ll hou the C ns nt f tl e Congress lay any Impo ts o D t es n In ports o Exports except what may be bs lu l ne ry for execut n t s n pect on Laws and tl e net P od c f ll Dut es nd Impo t la d by any State on Impo ts Expo ts h ll be f r the Use of the Treas ury of the U ed St nd ll su h Laws sl all be subject to the R n nd ontroul of h Congress

(3) No S sl ll tho t th Consent of Congress lay ny Du f T nn ge k ep Troops or Sh ps of War in t me f Pea te nto any Agreement or Compact with another

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(7) No Money hall be d a fr n ıl T e ry but in Consequence of Appropr t n d b L at d regular Statement and Accou t f tl Re pt and Exp nditures of all public M n l ll t p bl l d from t e t t me

(8) No T tle of N b l t l all l g t d by the United States And no l er n l l l g a Off e of Prof t or Trust under them sh ll th ut tl e C ent of tl e C ngress ac cept of n present I l t Off or T tl of any k nd whatever from n K n I t l e t f gn St te

SECTIO 10 (1) N s t l t n Treaty Al liance r Co f u t gr t Lett f Ma que and Re prisal co n Mo c t P ll f C ed m ke any Th n but gold nd s l e C a T l l men f D bt pa s any B ll of At a d r x p f to L L w npa ring the Obl gat on of C nt o gr t n T tl f Nob l ty

(2) No S t h ll th ut tl e C ent of tl e Congress lay any Impo t r Du n Imp t Expo ts except what may be abs lu l ry fo x u ng t s n pe t on Laws a d th n t l lu f ll Duties and In po t laid by any State n In po ts Expo ts h ll b f the U of the Treas ury of th U n ed S tes nd ll u h La shall be subject to the R d ntr ul f the Congres

(3) N St l ll thout the Consent of Congress lay any Duty of T nn ge Keep T oops or Sh ps of War in time of Pea en e n o any Agreement or Comp ct with another

one Vote; A quorum for this Purpose shall consist of a Member or Members from two-thirds of the States, and a Majority of all the States shall be necessary to a Choice. In every Case, after the Choice of the President, the Person having the greatest Number of Votes of the Electors shall be the Vice President. But if there should remain two or more who have equal Votes, the Senate shall chuse from them by Ballot the Vice President.

(3) The Congress may determine the Time of chusing the Electors, and the Day on which they shall give their Votes; which Day shall be the same throughout the United States.

(4) No Person except a natural born Citizen, or a Citizen of the United States, at the time of the Adoption of this Constitution, shall be eligible to the Office of President; neither shall any Person be eligible to that Office who shall not have attained to the Age of thirty five Years, and been fourteen Years a Resident within the United States.

(5) In Case of the Removal of the President from Office, or of his Death, Resignation, or Inability to discharge the Powers and Duties of the said Office, the same shall devolve on the Vice President, and the Congress may by Law provide for the Case of Removal, Death, Resignation or Inability, both of the President and Vice President, declaring what Officer shall then act as President, and such Officer shall act accordingly, until the Disability be removed, or a President shall be elected.

(6) The President shall, at stated Times, receive for his Services, a Compensation, which shall neither be encreased nor diminished during the Period for which he shall have been elected, and he shall not receive within that Period any other Emolument from the United States, or any of them.

(7) Before he enter on the Execution of his Office, he shall take the following Oath or Affirmation: — "I do solemnly swear (or affirm) that I will faithfully execute the Office of President of the United States, and will to the best of my Ability, preserve, protect and defend the Constitution of the United States."

SECTION 2. (1) The President shall be Commander in Chief

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SECTION 2 (1) The President shall be Commander in Chief

lent fluctuation at a high level of prosperity is a primary responsibility of the American government

Often economic progress results from the conception and introduction of new id as creating economic oppor tunities Brilliant new concepts or discoveri s—harnessing el ctricity the devel pment of plastic material atomic fission—do not follow a r utine sch dul Th y occur al most unpr dictibly and at irregular interval The progress they engender th r for annot flow in a continuously smooth str am

Nor an th nation pr du ti n and on umption be held in rigid b l in e Mild fluctuati n is n rmal in the proc ss f gr wth and cn mi d el pm nt Deep de pre sion or un away inflati n cn th oth r hand are neith r n rmal n r n ary they r pr nt a breakdown in th n rmal fun ti ning f a fr e ma pr du tion econ omy

At l ast twi e ince the S cond W rld W r timely us of th gov rnm n n r t l h r pr ented mild rece ion fr m l s l p ng in ser u l pre ion Many econ mi t b li e th t t ring unf r t l l calamities th Am ri an c n r n p b i f atures of built in t ability Still l uld n t nor the human factor In th la t r failure f an c on m t d n fr l p nu r t ability of men to reas n

Th ca e f ab it t ability in a free

Let u n id tr th tl w m y view the econ m f r th k t im p i t r i of m n y payments operati n of th n ik n f t en t u f his mon y t pe pl f r th u w in Th r a n tant flo v to buy th thing th f pr d i t n and di tributi n and a of lab r t pl resulting flo of produ t and servi es back to th people

In everyday life the farmer pays his help the factory manager pays the mechanic the airline pays the pilot, the corporation pays interest to bond holders, and so on. Th people getting paid for their services pay the grocer for food, the gas company for heat the doctor for professional services the city for sanitation and police protection, and the Federal government for postal services highways and even jet fighters

There are therefore two continuous streams running in opposite directions one is the stream of goods and services the result of the efforts of people to produce and distribute what consumers will want the other is the stream of money payments the result of people being paid for their work and paying others for products and services. If both streams flow at high and stable levels the economy will operate at satisfactory levels of relative stability Fluctuations will be mild, without violent change in prices of goods and services or in the totals of employment and income

Many problems however are involved in keeping th two streams in balance Th flow of goods and services is ever changing both in size and composition. Some products are sold during certain seasons yet their production goes on throughout the year New products appear on the market, affecting production and employment in other lines International complications cause shifts in production and distribution. Defense needs divert labor and materials to the production of armaments Floods droughts or strikes cause unpredictable chan es in the smooth flow of the two streams

These causes of change are more or less common to all modern economies there is an additional significant cause of change in a free economy the individual freedom of cho ce Th consumer as a rule is free to buy what h likes and in whatever quantities his budget can stand. More important, the management is free to decide whether to

expand facilities start production of new items introduce new machinery or distribute larger dividends to stockholders instead of re investing company profits Millions of individual decisions taken together can cause important changes in the flow of the two streams and consequently in levels of income and employment

In a monolithic industrial tat free economic choice is almost non-existent De isions are mad by a political elite which holds the pinnacle of th politi o-economic pyramid This stifling of freedom is a primitive method of achieving stability Seen historic illy it is another instance of a society subordinating the individual to the omnipotent will of the State

In a democratic society on the other hand it is considered paramount that fre lom of h nce for the individual be preserved *T achi ve relative stability without unduly curbing in h ilual fr e l m* is a m un objective of government To achi thi end the Am rican people have voted their go ernm nt certain tool These are intended primarily t regul t th v lume and flow of money

Instruments for pre erving tab lity

The a tual m ignitu l t th m ney stre im in the American econ my d pend n tw f t rs the quantity of mon y (that is th num b r f d ll r in irculation) and the frequen y with hi h tl m n y changes hands

If the money fl w i t h k pt n relati e b ilance with the flow of g od nd r ice th re mu t be control of either the t t il quantity f d ll r th rate at which money p i ses fr m on per n to an ther or both.

In the U nit d Stat th r ite at whi h people spend their money is influenced by legi lati n fav ring d velopment f a t group of mid lle inc me families with a high tendency to consume This influence however is

direct and th government does not control the decisions of individuals But governm nt is equipped with a number of tools to regulate, indirectly and directly the *supply* of money

Under the Employment Act of 1946 the American government is formally committed to the preservation of economic stability The gist of the Act is that government shall cooperate with industry labor and a riculture to promote maximum employment and production avoid serious depressions, and prevent disruptive changes in price levels—and thus within th framework of free competitive enterprise The Act has become a cornerstone in th development of the American economic syst m In the post war years its principles were credited with staving off serious economic dislocation despite unsettled world conditions.

A government may take drastic action like rationing goods fixing pr ces and allocating materials and labor But in a free society such restrictive measures are cceptable only in serious emer encv as in wartime or in the event of economic catastrophe The American government relies primarily on indirect regulatory instruments At its disposal are many tools with which it can promote a steady rise in incom and employment and iron out fluctuations around points of balance

Monetary policies

One broad category of tools comes under the heading of monetary pol cies The monetary policies deal mainly with the commercial banking system and are for the most part administered by the Federal Res rve System One device used by the Federal Reserve System to control th volume of mon y is manipulation of so-called reserve requirements Approximately seven thousand private banks are members of the Federal Reserve System. These member banks must comply with reserve requirements i.e

must deposit a certain percentage of their assets with on of the twelve Federal Reserve Banks Reserve requirements are not rigid they can be increased or decreased by the Board of Governors of the Federal Reserve System. When the Federal Reserve decreases reserve requirements, banks can lend and invest more freely The general to of the market becomes easy with a corresponding decrease in the cost of borrowing i e in the rate of interest. The opposite becomes true when the Federal Reserve raises reserve requirements

With the experience of the past decades American bankers are very sensitive to Federal Reserve actions and consider even a slight increase in reserve requirements a caution signal Thus raising reserve requirements, in addition to its direct effect on money supply has a psychological influence on the banking community which should not be underrated

Another weapon in the Federal Reserve arsenal is th power to adjust the interest rate on rediscounting A member bank can increase its cash funds or deposits with the Reserve Bank by depositing commercial paper le al evidence that d bts are owed the m mber bank to be redis counted by the Reserve Bank If the Federal Reserve wishes to encourage credit flo v and spending the redis count rate is low red if it deems contraction of credit wiser, the Bank rai es the di count rat

Sull 'noth r Fed ral Re rve in trument is open mar ket op rati n The Bank may buy or sell certain government se urities on the open m rket offering them to member bank When F der il Re r e buys money f ows into circulati on when it sell m n y fl vs into th Re serve and stops cir ulating until the B ard of Governors de ms it appr priate By manipulating rediscount rates and engaging in pen mark t operati n th Fed ral Re erve maintains a regular check n the upply of money Besid s having direct economic ff ts the employr nt of th

devises serves al.o as a signal to the nation of prevailing Fed.ral Reserve attitudes and its reading of economic trends

There is a major difference between rediscountin, opera tions and open market operations In open market opera tions the initiative rests exclusively with Federal Reserve. In other words it is up to the Federal Reserve to decid if pu chas. or sale of government securities in the market is advantageous to the over all

y

— u stock market credit consumer — ш
credit, and real estate cred t.

It is gen rally acknowled ed that by regul ting margin requirements —i e the proportion of cash required by law for the purpose of securities—the danger of excessive credit in the stock market is minimized the market fluctua tion. are kept within safe limits.

Anoth r tool at the disposal of government is the tem- porary restraint of consumer credit in times of emergency Through proper manipulation of consumer credit con sumer demand can be brought in line with current supply Removal of restrictions on the other hand can spur de- mand when increa ed consumption is deemed necessary

A similar set of dev ces may be used to regulate real estate credit, especially for residential properties Author ity to regulate c.rtain kinds of real estate credit was tem porarily granted the President in September 1950 wh n strong inflationary pressures and defense requirements m de such authority necessary Thes restrictions have since been lifted.

Fiscal Pol cies

Old sound fin.nce theory maintained that govern ments could afford to go ahead with need d projects

only in periods of prosperity This theory is now d funct no modern economist would support a policy of economy in a period of economic depression Instead modern economic thinking holds that taxation and spending poli ies —i e fiscal policies—should provide an array of useful tools for ironing out economic flu tuations

The chan_e in thinking is fairly recent. Three d_cades ago it was generally believed that government action on sufficient scale to cope with d pre ion could not be taken without jeopardizing the monetary and fiscal structure.

In a climate of such economic thinking fiscal policy was conceived in narrow and restricted terms When the severe depression of the early thirti s set in the United States was unprepared to meet the ch llenge Yet thanks to its democratic framework the country profit d from the errors of the past soon positive mea ur for a c unter depression fiscal policy were adopted into law

At present the Am ric in government has the fiscal tools and th economi thinking an l administrative machinery to use them properly Th t l re n t f olpr of they are being steadily str ngthen d an l supplemented by appropriate legislation The a lvant f lemocracy is that it can meet th challenge f tim ith ut resorting to bloodshed or self-de tru t n

What are the fisc l d vi e at the di p sal of the Am r ican government t day Or u t divide them into two bro_d catego ri by th s I t bil z others are used tion all the tim e n u n r u t n e require In the by governm nt P r t r f i n t ne t ial security first cat gory ir t l in ra gu ranteed by the benefits f rm sub ll tl pr gre si e income Federal m t re the p f Congress to tax In th n ite nd in rea r de r a e public raise or l wer tax

pending

Th re are thr e s u ces of in ome in a free economy—

business investments consumer spending and government expenditures Only the third can be wholly under government control without excessive repression of individual freedom. While government can influence the other two sources of income th influence must be indirect, through monetary policy Fiscal policy therefore acquires great significance, especially in view of the expansion of government operations in modern times

Through th operation of automatic stabilizers the government gains time to proceed with discretionary measures deemed necessary to meet disruption in levels of income and employment. More specially in times of declining business activity and increased unemployment, automatic stabilizers like social security and unemployment compensation go quietly to work providing many consumers with purchasing power If farm prices are falling farmers receive subsidies which also maintain their purchasing power And, in times of economic pro perity as in ome increases, tax recei ts increase automatically

While automatic stabilizers unobtrusively exert their influence governm nt can go forward with more drastic legislative measures If the country appears headed for a period of declining economic a tivity Congress may reduce taxes and authorize expenditures for public works to stimulate the economy In times of inflationary pressure the au tomati stabilizers exert a restraining influence while the government raises taxes and cuts inflationary spending.

None of the monetary and fiscal devices can by itself prevent economic fluctuations But their combined and co ordinated use can alleviate economic d slocations Th monetary tools can be used more quickly because their application is entrusted to a single ncy the Federal Re s rve. The automatic fiscal stabilizers also work swiftly respondin automatically to rise and fall in levels of income and employment.

Statistics and economics an aid to Government

The choice of appropriate fiscal and mon tary policies is not left to chance The Employment Act of 1946 e tab- lished the Council of Economic Advisers The Council gathers timely authoritative information on economi de- velopments and trends it apprais s the programs and ac- tivities of th Federal government in its effort to maintain maximum employment production and purchasing pow er it develops and re omm nds to the President national economic policies d signed to av i l e onomic fluctua tions or diminish the effects there f and finally it assists and advises the Pre id nt in pr parin his Econom Message to Congress This annual rep rt erves as a blue- print showing cl arly where the Ameri an e onomy stands and where it is going In vi w of th gr t influence of the American economy on the rest of the w rld this Message is probably one of the mo t important d cuments of our time

By gathering reliable stati ti al d ta the Ameri an gov ernment obtains a c mpr h n iv pi tur f t n tional economy

The Employment Act of 1946 al pr id the machin ery of economi f r a t n l ev lu ti n f r h l i lature The Act e tabli h d a J int C mmitt e n the E nomi Report of th Pre i l nt c n p f n m mbers of the Senate and se en n r ber t t H f Repre sentatives Thi C mmit m k ing tudy of matters pertaining t th Er l nt l R port and submits t th Senat and t t H t nd n s and recommendations

The American government t e ope l w th an impressive array of in trument f r th l f n m fluctuations and the maintenan e f h l l el f income and employment.

All these instruments and devices may appear complicated to the layman—and they are But their outstanding feature is that they represent a sincere and mostly successful effort to achieve stability without destroying, in the process the individual s freedom of action

These instruments were not developed overnight they are the results of experience gained by trial and error It would be unwise to suggest th y be copied by other countries Conditions differ greatly from one country to an other Nevertheless these instruments merit study They are historic evidence that in a democratic society solutions can be found for most social and economic problems without sacrificing individual freedom and dignity

EPILOGUE

Even in this age of revolutionary change the basic aspirations of ordinary men hold constant in every land. The world's millions pursue personal dignity and freedom, national independence and material well-being. Yet, despite common goals there is much confusion as to the roads leading to them. Men often advocate or use means which virtually negate their ends—and their hopes. This confusion has bred strife and rivalry further obscuring basic objectives and leaving only bitter hatred, frustration, and bewilderment. If a powerful search light could probe through the heavy fog of misinformation and calculated distortion it would reveal two ideas contending for the support and loyalty of mankind. One is that the omnipotent State must have total control over the life of the individual. The other upholds the ability of Man to lead his own life and contribute to the common well-being within a democratically accepted legal framework.

As a small contribution in the search for better understanding of the issues that confront us I have tried to outline fundamental principles and features of an economic system which upholds the freedom and dignity of Man, while assuring his material well-being. This economic system is a sweeping rebuff to exploitation; it could not survive unless it produced for the benefit of the many." Mass production cannot be sustained unless there is mass consumption which, in turn depends upon mass purchasing

power This is a creative circle in which people participate freely not only as producers but also as enjoyers of the fruits of their labor

By satisfying not merely in theory but in practice two major aspirations of Man—freedom and material well being—the American system is a far reaching advance over old style capitalism and Soviet monolithic industrialism

Still one may ask What practical meaning can all this have for the million in the vast expanse of Asia or to the agitated youth who shout anti West rn slogans in the streets cf a Near East capital or to the multitudes of Africa startled by udd n aw k n ng to the complexities of the twentieth c ntury The answer is that the modern world is a compl x w rl l it i g tting m re complicated every day Mankind cann t r turn to the idyllic simpli ity of earlier time On th c ntr ry all natic n are steadily moving int th tr m of indu trializ iti n The choice facing the pe pl i n t b t n idylli simpli ity and the modern c mpl x ty Indu tri lizat n and c mpl xity are sure Th ch i i t tw en l m c nd t talitarianism

The opp n nt f l m cr i ll ir ue that democratic processes w ll take t l ng t r th imp tient nations of the un lerdev l d r It f t in t whim of fate that the i n e f th t nti th ntu r n make it less difficult f r th und r le l p l tri t h se the democratic w ys Y un n l r tl n i n c mbining the tools f n with l m crati n m principles can find ch nn l f r tl pent un pit n e f their peoples These p in ipl rt nd t nati n and open the circle of i n r n c p t tar

road t a b t t tar

Fr m a pr i i t n p int m i h w ll depend on how the ad an d ti n r t n h t f the indu trial nations to ar a that are trugl ng to tra l th road to derdev l p t Th r p (with the un

industrialism cannot be overestimated. And not only have they a responsibility to help the underdeveloped nations their self interest demands they do so Battles of hydrogen bombs and ballistic missiles may never be fought but the battle between democracy and totalitarianism goes on relentlessly even in the form of competing economic systems This battle is rarely spectacular yet its outcome will determine the world we live in for the forseeable future.

A major advantage of the American economic system is its elasticity It can adjust to meet particular needs It can expand or contract in response to the changing requirements of a nation. In 1861 Abraham Lincoln wrote epigrammatically

> "The legitimate object of government is to do for a community of people whatever they need to have done but cannot do at all or cannot so well do for themselves in their separate and individual capacities.

This philosophy of government the vast majority of Americans has come to believe in and to practice It embraces giant private enterprises like General Motors and government projects of equal magnitude like the Tennessee Valley Authority or the atomic plants at Oak Ridge, Tennessee and Hanford Washington Countries entering industrialization can apply this philosophy of government to their own conditions and problems The extent and scope of government responsibility from one country to another may vary considerably Most important is that the people are spared the suffering and indignity of a totalitarian state

Acceptance of these principles does not mean the world will be shaped in the American image.

The totalitarian ideologies of our time promise to

solve the world's economic and social ills by placing total power in the hands of an elite. Experience has shown that this promise involves the sacrifice of human freedom and the sacrifice of many human lives. Not even the members of the elite are safe. Besides, heavy sacrifices extorted by the totalitarian State are not necessarily matched by substantial material gains for the people. On the other hand, American experience has demonstrated that economic and social inequities [illegible] remedied and real progress can be attained in a free society.

The American [illegible] system of democratic industrialism [illegible] the rule of private [illegible] standard of living [illegible] able [illegible] great [illegible] the reader [illegible] own [illegible] his

In this [illegible] the [illegible] principles [illegible] own conclusion